CREDIT and

FINANCIAL MANAGEMENT

DEVOTED TO INDUSTRY ★ FINANCE ★ COMMERCE

INSURANCE IS THEIR BUSINESS *Story on Page 5*

SYMPOSIUM: — How Credit Executives Help Customers Protect Their Business

Hazards Peculiar to the Supermarkets Require Super Protection by Insurance

Appraisal That Doesn't Appraise Begins With Failure to Keep Records Current

Coverage against Legal Liability in Fire May Save Business from Death in Suits

OCTOBER, 1953—*Insurance Number*

VOLUME 55 NUMBER 10

SAVE 2 out of 3 billing steps with

BURROUGHS *DIRECT* MULTIPLIER

Computes and types the complete invoice in one continuous operation.

Computes by direct multiplication . . . not by repeated addition.

Prints quantity, then prints unit price and total amount simultaneously—no need for machine checking of quantities and price.

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In fact, this machine types and computes an invoice in less time than it would ordinarily take to copy it!

Here's the proved-in-use way to cut your billing operations . . . cut your billing costs. Get the full story soon, from your Burroughs man. The Burroughs branch office near you is listed in the yellow pages of the phone book. Or write direct to Burroughs Corporation, Detroit 32, Michigan.

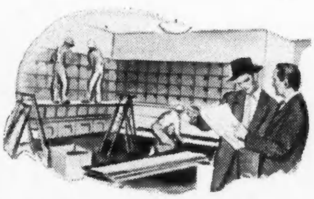
WHEREVER THERE'S BUSINESS THERE'S **Burroughs**

Burroughs

Meet your HOMEtown Insurance Agent

HOW TO INSURE A PROFITABLE BUSINESS

EVEN A GOOD BUSINESS can be a keg of dynamite. A flash fire, for instance, can turn a going concern into a gone one. And that's only one of a hundred or more hazards. Fortunately, many if not most of these risks can be covered by insurance. That's why far-sighted businessmen often have regular, frank conferences with their insurance agents. Have a talk with your Home Insurance agent—he knows his business and how to give you the best insurance values for yours.



Profits as Usual! The *earnings* of a business can be insured, too. While damage caused by fire or other specified perils is being repaired, Business Interruption insurance provides that regular earnings will continue. And your Home agent can tailor this policy to *your* needs!

Your HOMEtown Agent can serve you well—see him now!

How Does This Advertisement Concern Bankers?

Bankers are the "backers" of business . . . and well appreciate the risks involved in doing business without sufficient insurance coverage.

That's why most bankers encourage their commercial customers to maintain a sound, up-to-date insurance program. And they do it by suggesting periodic surveys by a man thoroughly familiar with local problems and requirements—and all phases of business insurance . . . The Home agent.

☆ THE HOME ☆
Insurance Company

Home Office: 59 Maiden Lane, New York 8, N. Y.
FIRE • AUTOMOBILE • MARINE

THE HOME INDEMNITY COMPANY
Casualty Insurance • *Fidelity and Surety Bonds*

The above advertisement will appear as a full page in color in:

SATURDAY EVENING POST
October 31

TIME
November 9

U. S. NEWS & WORLD REPORT
November 13

BUSINESS WEEK
November 14

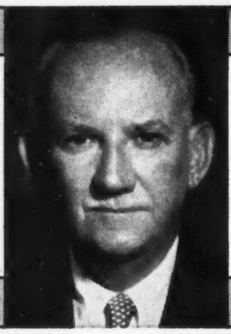
BETTER HOMES AND GARDENS
November

NATION'S BUSINESS
November

TOWN JOURNAL
November

1853 • 1953
THE HOME INSURANCE COMPANY NEW YORK
100th ANNIVERSARY

Editorial



Protecting Credit Standing

CREDIT LOSSES due to carelessness are inestimable. Despite this fact, they are less than they were years ago. There is a very good reason for this.

Credit men have always been conscious of the need of debtor protection against the unusual hazards of trade. This is particularly true in the field of insurance.

In the tornado and storm damage earlier this year, the insurance companies suffered tremendous losses in the satisfaction of claims. On the other hand, the debtors, who were insured, had a measure of protection they never of their own account could have enjoyed.

In a complex world, such as we have today, there are so many business problems, both internal and external, that the diffusion of a risk is just naturally good business. Therefore, whenever an opportunity is afforded credit executives to eliminate the hazards beyond the control of man, they attempt to do so. They cannot afford to take the risk on a sizable account of a debtor who is not protected by insurance. The insurance company over the longer period of years can afford to do so, since its risks are scattered over a wide area and the loss is paid out of the premiums collected from various underwritings.

The normal hazards of modern business present the credit executive with many problems that are difficult to solve. His time and mind should be free to give these problems his undivided attention. The problems that are beyond his control or beyond the control of man should be placed on the shoulders of those who are specialists in the field. These specialists are naturally the insurance companies. Whether a policy is written for life on exceptional management, for a fire on the physical plant and equipment, for a liability due to accidents, or for use and occupancy to insure continuity of business earnings or to cover any other hazard, the fact that such coverage is in effect makes the credit of the debtor much more acceptable. It pays the debtor dividends to take this protection, for not only does he protect himself but he protects his credit standing with his source of supply.

Henry H. Heimann

HENRY H. HEIMANN,
Executive Vice President.

THE OCTOBER COVER

EDUCATION of business and public in insurance protection is the common interest of the two executives who appear in the cover picture of this issue. Both are general managers of organizational activity, one in the casualty and surety areas, the other in fire underwriting.

J. Dewey Dorsett (left) is general manager of the Association of Casualty and Surety Companies, a member of the North Carolina Bar, and former chair-

man of the North Carolina Industrial Commission. Lewis A. Vincent (right), general manager of the National Board of Fire Underwriters, started with the organization 23 years ago as a field engineer in the Chicago office.

Mr. Dorsett became affiliated with the casualty and surety association in 1939 as manager of the casualty department, and was elected assistant general manager in 1943, advancing to his present post the following year.

While clerk of the superior court in his home county, he studied law. After five years he became assistant cashier of the Chatham Bank in Siler City, N.C. Appointed to the state's industrial commission, which administers the workmen's compensation law, he became chairman in 1936.

Besides being secretary-treasurer of the National Association of Casualty and Surety Executives, Mr. Dorsett is a trustee of the National Safety Council and the Industrial Hygiene Foundation of America, Inc.

Mr. Vincent, while a National Board engineer in municipal fire protection, served on technical committees, promoted school safety programs, taught at fire colleges, and later supervised fire patrol and salvage corps nationally. Named assistant secretary in 1937, five years later he became assistant to General Manager Wilbur E. Mallalieu (whom he succeeded in 1951.) Placed on the actuarial bureau in 1945, he organized the board's present basis of statistics.

He was consultant to the War Department from 1940 to 1945 and secretary of the committee that wrote the Government's Manual on Fire Protection for Civil Defense. In 1947 he was assistant executive director of the President's Conference on Fire Protection.

CREDIT and FINANCIAL MANAGEMENT

DEVOTED TO INDUSTRY ★ FINANCE ★ COMMERCE

General Manager: Edwin B. Moran
Official Publication of The National Association of Credit Men

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WASHINGTON

REINSURANCE of U.S. risks netted $52.2 millions in foreign dollar receipts last year, says the Department of Commerce. American insurance companies paid net premiums of $152.9 millions to foreign reinsurers and recovery of losses against this total was $100.7 millions. The net is an increase of 29 per cent over the previous year.

In these transactions the insurance companies transfer a part of the liability assumed to other insurance companies, the reinsurers, making possible the underwriting of risks which the one company does not handle alone. The foreign reinsurer thus becomes liable to help pay losses.

ONE of the last bills signed by President Eisenhower at the "Summer White House" in Colorado was the so-called "omnibus tax bill," which contained 17 technical changes in tax laws to remove inequities, especially under income tax provisions. One item continued the current tax treatment of insurance companies.

MOST states showed a gain in income of individuals last year, but the largest increases over 1951 occurred in Arizona, California, Kansas, Nevada and South Carolina, according to a breakdown, by states, of the $255 billion national income.

THE NEW Small Business Administration, which goes into action September 28th, taking over the Reconstruction Finance Corporation's lending functions, will reflect a Government policy of tightening up on loans, with the Government unlikely to be the lone lender of working or expansion capital in any instance. This was indicated by William D. Mitchell, administrator of the new agency.

DECLINE of 10 per cent in farm income was blamed by the Department of Commerce for a drop of like percentage in the amount spent by farmers for new plant and equipment in the first six months of this year, compared with the same period in 1952.

STRONG consumer demand for housing will continue in the remaining months of this year, says a Federal Reserve study. The survey showed that more intended to buy houses this year than in either 1951 or last year, but those who planned to make major improvements and repairs this year were only one-half as many as actually made them last year. Twelve million home owners spent $50 or more on improvements in 1952 and one-third of them used $500 and upward. Sixty per cent of prospective buyers were married couples under 45 years. Almost half of the prospective buyers were World War II veterans.

STEM RUST in Wyoming added that state to those in which the 1953 crop wheat price support program has been relaxed by the Department of Agriculture.

THE 8,850,000 man-days of idleness caused by labor strikes in the first five months this year were one-half the total for the same period in 1952, according to the Bureau of Labor Statistics.

TO ENCOURAGE builders to take older houses in trade toward new ones, the Federal Housing Administration has liberalized its insured mortgage plan so that builders more readily can finance repairs on older houses and refinance existing mortgages on them. Now, the builder taking an old house as a trade-in on a new one may get an FHA insurance commitment covering 80 per cent of the first $7,000 of value plus 60 per cent of the balance up to a total mortgage of $10,400.

PRICE SUPPORT SECRETS

Price support operations to date have been twice as high (1.5 billions) as outside estimators have guessed, according to officials within the Department of Agriculture.

As for official figures — somehow they just haven't got around to that!

ROBERT A. McDOWELL is ending his first month as director of the division of corporate regulation, Securities and Exchange Commission. Mr. McDowell is from the New York City law firm of Sullivan and Cromwell. Assistant director of the division is Philip Friend, who was temporary director.

LOWER test weight rye, if safely storable and suitable for feed, is among the provisions of a broadened standard for price support loan eligibility in Minnesota and the Dakotas.

CERTIFICATION for importing raw sugar from Cuba has been ordered, now that more than 80 per cent of the Cuban quota has been received.

TRENDS— IN BUSINESS AND FINANCE

Protection for Employees

EMPLOYEE GROUP insurance plans, when made available to small companies and firms through the mass purchasing advantage of trade or professional associations, can be an effective bulwark against the encroachment of government-sponsored insurance programs, says Edward E. Mack, Jr., Chicago insurance broker.

"Group insurance plans offered by associations give employees and their dependents protection not otherwise available to small employers," Mr. Mack observes. "Businessmen, large and small, recognize these private insurance programs as an additional weapon they can use to fight off the threat of government subsidization and socialization of business and industry."

More Small Companies

REFUTING the commonly heard assertion, often made by troublemakers, that the small businessman is disappearing into the maws of Big Business (they always "capitalize" by that spelling device too) is the increase of almost 400 per cent in number of companies in the United States since 1900, as reported by the National Association of Manufacturers—a total of 4,050,300 units.

The rate of increase in number of companies actually has been faster than population growth. In 1952 there were 26 companies per 1,000 persons; in 1900 the ratio was 22 to 1,000.

Theory or "Gimme"?

A SIGN of the times—of *any* times—is the tendency of columnists and other purveyers of words via public print to attribute ponderous weighing of philosophical and economic theories as the preliminary to the simplest of actions. F. Melius Christiansen, originator of the famed St. Olaf College Choirs, had an effective and blunt technique for debunking by metaphor. Discussing "inspiration" and using the text of "Last Night the Nightingale Woke Me" as an example, Dr. Christiansen dryly observed in one of his classes, "Inspiration? Maybe the composer just went to the window to spit."

So with the wheat farmers' acceptance of marketing quotas on the 1954 crop, in preference to eschewing federal price support of parity. Protagonists of fixed support see the farmers' collective decision as a "repudiation of the Administration's desire to move away from close governmental controls on agricultural production," while "opponents of fixed supports have criticized farmers for renouncing their traditional freedom of action," says the *Survey*, of the Guaranty Trust Company of New York. The *Survey* doubts either explanation, says the farmers simply were "faced with a condition of acute oversupply which called for a sharp reduction of acreage."

Then, again, we could go farther toward a simple explanation. Wasn't it John Nance Garner who said "You can't beat a million dollars?" (Today of course Jack would have said "billions.")

Many a man thinks he is overworked just because he takes all day to do a three-hour job.

—Anonymous

Good Year, More Competition

BUSINESS in the coming year will be good, but there will be less spending and more competition, predicts Guy E. Reed, executive vice president of the Harris Trust and Savings Bank, Chicago.

The lumber industry reports increasing competition, and so fewer trees will be cut, the bank executive told arborists and nurserymen of the National Shade Tree Conference.

"The public debt of close to $300 billions presents the greatest problem," he declared, but "the factors that led to the depression following World War I are not present today."

On the Right Road

DESPITE the cries from the far-to-the-righters that Government has no place whatever in free enterprise, the new federal power policy explained by the Department of the Interior recognizes that "the primary responsibility for supplying power needs of an area rests with the people locally," says Undersecretary Ralph Tudor, and makes the federal government a "partner" with state and local communities and with private enterprises. This policy, he added, will prevent "monopoly by any one of these parties."

Preference in obtaining power from expanded facilities will go to domestic and rural customers, but existing preferential agreements with industrial users will continue in operation. Said Mr. Tudor: past policy had placed "industrial consumers higher on the totem pole than the domestic and rural customers."

The Department, defining its own responsibility as one of giving "leadership and assistance in the conservation and wise utilization of natural resources," declared that it will "emphasize those multi-purpose projects with hydroelectric developments which, because of size or complexity, are beyond the means of local, public or private enterprise."

President Eisenhower termed the move consonant with the "principle that the states and local communities, private citizens, and the federal government should cooperate in an effort actively to encourage the development of natural resources."

Mortgage Payments Prompt

DELINQUENCY in payment of mortgages averages less than two persons of every 1,000 Southeasterners having mortgages with The Mutual Life Insurance Company of New York, says Alec C. Morgan, regional supervisor, at Atlanta. In the five states—Alabama, Florida, Georgia and the Carolinas—where the company holds $84 millions of mortgages on 10,300 individual non-farm properties, the delinquency rate is 0.16 per cent. The company's national average is 0.19 per cent. Eighty per cent of Mutual Life's urban mortgage loans have financed one-to-four-family homes.

Not on Edge of Recession

The nation is *not* on the edge of a business recession despite such signs of slippage as a rising trend of failures and some easing of the pace of construction, says Charles Day in the Cleveland Reserve Bank's *Business Trends*. Private demand, both by business and consumers, continues strong, and the rising inventories are a good sign for the present, he adds.

Ernest A. Rovelstad

Helping Buyer Buil

First Convince Him That He's "Playing with Fire

UNINTERRUPTED operation by the profit-making customer determines the business success of the supplier. Therefore, it is up to the wholesalers' credit department to help the customer fashion an insurance program that will see him through coming business-wrecking hazards.

What the customer's program should be, which coverages he should have, how far the credit manager should go in insisting that he protect his accounts receivable—these and many other questions are resolved by insurance-experienced treasury and credit executives in the following symposium, all written for Credit and Financial Management's *Insurance Number*.

Stability of Underwriter Is As Important As Coverage

W. C. PITNER, *Vice President, American National Bank & Trust Company of Chattanooga, Tennessee*

WHILE Character, Capacity and Capital are looked upon as the three stalwarts of credit, let us not overlook the interdependence of insurance and credit, particularly business credit.


W. C. PITNER

We can obtain from our customer the balance sheets and earning statements to acquaint ourselves with progress made in the past, and with present credit worthiness. We can obtain agency reports and have before us antecedent history and payment records. But who among us possesses the power to foresee casualties and disaster? So we make every effort to see that an adequate insurance program is provided.

To help you determine if your customer's business hazards are adequately insured, here briefly, and with no attempt to show relative importance, are some of the types of coverages that make up a sound insurance program.

FIRE INSURANCE—Have we studied our customer's requirements sufficiently to determine if the amount of insurance carried is enough to satisfy coinsurance clause requirements, considering inflated property values? Are fixtures, inventories and merchandise adequately insured, against not only fire but other hazards such as windstorm, smoke damage, explosion, sprinkler leakage?

BUSINESS INTERRUPTION INSURANCE—This coverage, also known as use and occupancy, provides for fixed expenses, loss of profits and salaries of key employees during the period of restoration following a disaster. Loss from interruption of business frequently exceeds loss from actual property damage.

PUBLIC LIABILITY INSURANCE — Here is protection against claims by third parties arising out of company operations. This category should include automobile liability and products liability, as well as general liability coverage. Many business concerns have been forced into bankruptcy because of large uninsured claims in this field. Beyond primary coverage, additional amount of protection is quite inexpensive, so adequate limits both for bodily injury and property damage should be insisted upon.

BOILER AND MACHINERY INSURANCE—Steam boiler explosion and machinery breakdowns can cause heavy losses, and should be adequately covered, including business interruption exposure.

BURGLARY AND ROBBERY INSURANCE, WORKMEN'S COMPENSATION INSURANCE, LIFE INSURANCE ON KEY INDIVIDUALS, CREDIT INSURANCE, ACCOUNTS RECEIVABLE INSURANCE AND FIDELITY INSURANCE should have their place in any well rounded insurance program.

Stability of the underwriter is all-important. Appraisal of companies could be rather difficult, but agency ratings and type of local representation usually will suffice.

Reminds Customers of Kinds Of Insurance Now Available

PAUL E. MERTZ, *Secretary-Treasurer, The Williamson Heater Company, Cincinnati, Ohio*

ONE OF THE DUTIES of the credit man is to explain to the businessman the value of insurance, the various types, and the importance of being fully covered at all times. A fire, tornado, explosion, earthquake or other disaster could wipe out his business overnight.


P. E. MERTZ

The kinds of insurance we consider essential in any business are these:

FIRE, LIGHTNING AND EXTENDED COVERAGE, which includes windstorm, tornado, cyclone, hail, limited aircraft, vehicle and smoke damage, riot and civil commotion. We recommend the reporting form of policy which provides for fluctuating values and avoids short rate cancellation in premium adjustments.

SPRINKLER LEAKAGE—If a building has sprinkler equipment.

EARTHQUAKE—In some localities.

BUSINESS INTERRUPTION INSURANCE—Formerly known as use and occupancy insurance. This insurance will enable your customer to maintain his key executives and take care of other fixed expenses as well as profit on orders that were cancelled during the period of rehabilita-

Adequate Insurance

Presentation of the Insurance Panel-in-Print has been necessarily re-scheduled for foremost attention in the December Issue. The later publication of the Panel addresses, of peak interest at the 57th Annual Credit Congress, was necessitated for three reasons, all concerned with space limitations: (1) 100 per cent response by participants in the Symposium herewith; (2) preservation of balanced subject matter in the insurance fields discussed, and (3) our insistence on passing on to you a "complete coverage" of the addresses at Montreal. So calendar yourself some extra time for extra good reading in the December Issue, all for improved credit department operation.—Editor

tion, and enable your customers to expedite the resumption of business.

FIDELITY BOND—A blanket bond covering all employees, minimum amount depending on size and type of business.

PUBLIC LIABILITY—A general liability coverage, with adequate high limits for bodily injuries and property damage, should be carried.

PRODUCTS LIABILITY—Minimum amount will depend on the character of the product sold.

AUTOMOBILE: LIABILITY AND PROPERTY DAMAGE—Comprehensive coverage for adequate limits should be carried on owned and non-owned automobiles. FIRE, THEFT, COLLISION—Amount is governed by value of car.

Other types of insurance to which your customers may want to give consideration, depending on character of product and type and size of business, are:

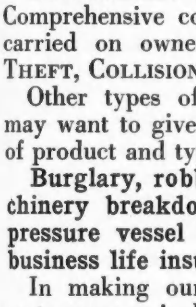
Burglary, robbery and holdup, check forgery, machinery breakdown, accounts receivable, boiler and pressure vessel explosion, consequential losses, and business life insurance.

In making our periodic insurance survey with our customers we include all these types of insurance in our questionnaire, to remind our customers that such insurance is available.

Familiar Story: Good Record, Fire, Business on Rocks

JOHN H. CURLING, *Secretary and Partner, Broome Distributing Company, Syracuse, New York*

LACK of adequate insurance coverage for credit seekers is a condition that many credit executives may discover too late to avoid credit losses. Too often the insurance programming of a small or average size business is handled by a person who places other duties first.



J. H. CURLING

An upstate New York retail store had been in business over 50 years with an outstanding credit record. The proprietor carried a small amount of insurance on his five-story building on a "flat" basis, and the same on his large stock of merchandise. Fire caused a total loss of building and contents. He never reopened, and a 50 per cent settlement was made with his creditors. It is hard to believe any businessman would be so injudicious; and his suppliers went right along extending credit until the day of reckoning.

Credit executives of banks and business houses regularly receive balance sheets and operating data. They can be of service to the customers as well as their own companies by paying careful attention to the factors indicating the business insurance needs. If this does not disclose sufficient information, a fact-finder questionnaire is suggested.

Insurance planning is a very important and complex field. Whenever we feel we cannot give good sound advice to our customers, we should insist they avail themselves of the services of a competent insurance adviser.

Says Insurance Men Fail to Educate Business and Public

SIDNEY ALEXANDER, *Secretary-Treasurer, S. Stroock and Company, Inc., New York City*

YOUR CUSTOMER'S approach to insurance coverages usually is based upon the knowledge of some friend or relative who happens to be an insurance agent. It is easy to give advice, but it is essential that those giving advice be able to answer any question concerning that advice. How many credit men have read the policies of their own companies?

SIDNEY ALEXANDER

We as credit men know all the steps leading to the granting of credit, including the appraisal of our customer's insurance protection, but we cannot use the same yardstick to measure the insurance requirements of the large creditor and the small creditor. Each case must be analyzed by itself. A company with a net worth of $25,000 cannot have as large a program for insurance as a company with a net worth of $500,000. It is obvious that the larger company has more risks.

The types of coverages, in review, are:

Fire insurance on contents, furniture and fixtures, etc.
Fire insurance on buildings
Use and Occupancy - - Workmen's Compensation
Crime and Fidelity Bond - - - - - - - - Boiler
Transportation - - - - - - - - - - - Replacement
Third Party Liability - - - - - - Life Insurance

There also are special types that seldom are placed but in many cases are necessary.

It is not within the province of the credit man to tell

his customer what coverage he should have. He should be advised to seek out a responsible insurance man, well versed in all types of protective insurance for creditor and debtor alike, and then draw up a program fitted to his operation, with the credit man consulted.

The one important factor is that your customer should know what insurance protection means, and it is up to his agent to educate him. He should be given to understand the danger of being under-insured, and the effect that may have in determining if he is a good credit risk.

Insurance companies have not scratched the surface of insurance placement due to their short-sightedness in not educating business and the public as to what insurance means to them.

When you talk insurance, the public understands it to be life insurance. When you say, "No, I mean not only fire insurance but etc. . . .," they just say "Oh!," as though it hadn't any meaning. I have heard businessmen say, "I don't bother with that; I leave it to my broker and he takes care of all my insurance." Then, when you dig into the coverages his broker has placed and you find he is not protected at all, it is pitiful what chances your customer has taken.

To know insurance in all its phases is a fulltime job and should be handled by specialists, not laymen. There are insurance counselors who specialize in making a study of your problem and then advising you.

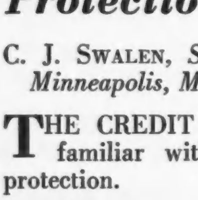
Before I looked over our insurance coverage, we had over 40 different policies. We called in an insurance counselor who reduced the number to eight and gave us complete coverage from every angle so that we could go home at night and sleep without worrying.

That is what I tell our customers and they have followed in our footsteps to their entire satisfaction.

A Service to the Customer, Protection of Credit Risk

C. J. SWALEN, *Secretary-Treasurer, Pako Corporation, Minneapolis, Minnesota*

THE CREDIT executive should make himself very familiar with all important forms of insurance protection.



C. J. SWALEN

The character of an insurance program can rightly vary greatly with the size of the organization. The small business enterprise with a modest surplus must avoid frequent losses, even though small. A large corporation can confine its program to protection against catastrophe losses, absorbing small losses even if they are quite frequent.

The protection most universally recognized and understood is physical damage by fire, water and windstorm to building, fixtures and inventories. The most prevalent error is under-insurance, particularly true today, because replacement costs frequently are much higher than the original cost.

Not so generally understood but just as vital to a good credit risk is business interruption insurance. This type has enabled many organizations to continue after a fire.

In this day of generosity of juries, bodily injury and property damage claims arising through the operation of an assured's business or automotive equipment represent a real financial threat. Whether the automotive equipment need be protected against fire, theft or physical damage rests with the financial net worth of the business enterprise. The increased replacement cost will call for an additional outlay of cash. Many states require liability insurance.

Another serious threat is dishonesty of employees. Some losses are an accumulation of years. Fidelity bonds, in ample amount, provide the answer.

The need of robbery insurance varies with the cash and merchandise exposure. To many concerns this is very vital.

Workmen's compensation insurance is practically a requirement of every state.

There can be no resentment in discussing with your customer what you consider important elements of his insurance program and pointing out the deficiencies therein. Actually, you will be performing a service for the customer while protecting your risk.

Strong Credit Merits Sound Insurance; Weak Requires It

FRANK W. POE, *Assistant Cashier, Mellon National Bank and Trust Company, Pittsburgh, Pennsylvania*

WITH EVERY passing decade the field of insurance becomes broader and more complex. Therefore, management of the insurance portfolio has become a task for trained personnel.

F. W. POE

We who extend credit have become increasingly aware that a good credit can change overnight to a poor one through bad insurance management. The credit manager should see that his customer recognizes insurance as vitally important. There should be in every organization someone charged with definite responsibility for developing and administering a positive insurance program.

The insurance program should be well defined, in a form readily available for reference, and should bear the approval of top management. Such a record normally includes a description of every insurance policy, what it covers, limits, term, premium and a summary of loss experience. It also should identify the agent or broker and the underwriting company on each contract. In this manual should appear a statement regarding hazards which are not insured and the reasons for self-insuring them.

Agents and brokers should be the best available and limited in number. Insurance purchased piecemeal from a great number of agents, principally on the basis of friendship, becomes everyone's business and no one's responsibility. One or two well-trained, progressive agents should be selected and instructed that they are to assume a substantial part of the responsibility for building a sound, economical insurance program in exchange for the commissions paid for such service. The competent broker or agent is indispensable to the smaller organization that cannot afford a full-time insurance manager.

The credit manager should call on the services of the insurance department of his own organization to appraise his customer's insurance program. The trained insurance buyer will be able to look beyond the usual coverages and inquire about the existence of such policies as business interruption, accounts receivable, valuable papers, contractual liability, depositors forgery, and others peculiar to certain types of business operations.

Compliance with policy terms is, in some cases, as important as purchasing the coverage. The coinsurance clause is perhaps the best example of the importance of complying with policy requirements. Judging from de-

scriptive literature, this clause is the most frequently misunderstood. The insured may be serenely confident he is adequately covered against loss by fire and other hazards mentioned in his extended coverage indorsement. However, if his policy limits are not closely related to current replacement values, he will find himself a coinsurer of even a partial loss. And to be a coinsurer means simply what it says: The insured will join the insurance company in paying the loss.

It is not necessary to remind the credit executive to beware of situations where there appears to be too much insurance. The usual sequel is obvious. Over-insuring can lead to relaxation of control of hazards all the way from fire to fidelity. Insurance does not replace lost property; it only makes such loss more easily borne financially.

A strong credit deserves a sound insurance bulwark; a weak credit requires it. Many potential liabilities, undisclosed in the financial statement, may be eliminated by a planned insurance program.

Epitaph of Razed Business: "It Won't Happen to Me!"

Owen S. Dibbern, *General Credit Manager, Pabco Products, Inc., San Francisco, California*

MANY dealers say this to themselves when adequate insurance coverage against disaster comes under consideration: "It Won't Happen to Me." A principal duty of any credit manager is to dissipate this type of thinking by the customers of the company he represents, and he can do much to guide them wisely.


O. S. DIBBERN

There probably are no two more important types of business insurance than fire and business interruption, though others, such as burglary, liability, boiler explosion, and earthquake insurance, should be considered by the dealer's insurance broker in providing adequate coverage.

FIRE INSURANCE

Building costs have increased 72 per cent the last four years. The purpose of any insurance policy is to protect a customer on the *replacement value* of his property in case of destruction by fire. Consequently, a customer who took out an insurance policy a few years back, and has not brought it up to date, may be in for a sad awakening in case of a fire. Many policies are written on an 80 per cent or 90 per cent coinsurance basis. A coinsurance or reduced-rate clause in fire insurance policies is good business if handled correctly. It *can* afford proper protection, but can develop into inadequate protection and work a very great hardship on any man in business.

What is the customary "average clause" (coinsurance feature) of the fire insurance contract? "It being optional with the assured, and the insured having elected to accept a coinsurance clause in this policy, in consideration of a reduced rate of premium, the insured hereby agrees to maintain insurance during the life of this policy on property hereby insured, to the extent of 80 per cent of the actual cash value thereof, and if at the time of the fire the whole amount of insurance on said property shall be less than 80 per cent, this company shall in case of loss or damage less than 80 per cent, be liable for only such portion thereof as the amount covered by this policy shall bear to said 80 per cent of the cash value of said property."

There is a slight variation in the wording of this clause in use by Pacific Coast insurance companies, but the end result is the same. It works this way:

WHEN CORRECTLY HANDLED		WHEN GUESS WORK IS USED	
Actual known value of property at the time of the loss	$100,000	Owner's estimate of value of property is	$ 60,000
(A) Owner carries insurance with the 80% clause	80,000	(A) Owner carries insurance with the 80% clause	48,000
A FIRE OCCURS		A FIRE OCCURS	
It is determined that the loss is	10,000	It is determined that the loss is	10,000
It is then shown that the actual total value of property was	100,000	It is then shown that the actual total value of property was	100,000
(B) The Insurance Policy stipulated that 80% was to be carried, or	80,000	(B) The Insurance Policy stipulated that 80% was to be carried, or	80,000
The Insurance carried (A) was $\frac{80,000}{80,000}$ of the amount stipulated (B) so the Insured collects 8/8's of the loss, or	10,000	The Insurance carried (A) was $\frac{48,000}{80,000}$ or 3/5 of the Insurance stipulated (B). The Insured collects 3/5 of $10,000 or	6,000
HE COLLECTS THE FULL AMOUNT OF THE INSURANCE UNDER THE POLICY		HE STANDS $4,000 OF HIS LOSS HIMSELF	

The coinsurance rate is an incentive to any owner of a business to insure his building and contents adequately, at today's increased replacement value and to comply with the provisions of the average clause, or coinsurance feature.

BUSINESS INTERRUPTION

As this article is being written, a good customer of our company has suffered a devastating fire. Adequate fire insurance was carried, but what about the succeeding six months while the business would be rehabilitated? There was no business interruption insurance. The dealer is out of business.

A modern store in a thriving community, business on the increase, but the insurance broker's advice was brushed aside—"It won't happen to me."

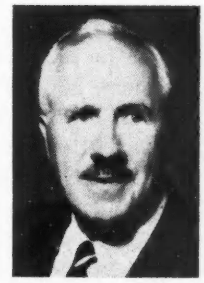
A very large percentage of those merchants who do suffer a loss of consequence and lack adequate insurance (both property and business interruption) do not have the resources to resume business.

As credit managers we cannot be too alert in counseling the customers to have adequate coverage. The cost is negligible compared with the risk of inadequate insurance coverage.

Insurance Advice Essential In Assistance to Customer

C. A. Maguire, *Assistant Secretary and General Credit Manager, Francis H. Leggett and Company, New York*

FOR THE GOOD of the industry, wholesalers should furnish advice to their customers wherever they have the opportunity to do so. In addition to advice on modern store equipment, layout and merchandising, we recommend not only adequate fire insurance with extended coverage on the assets but also protection against other hazards according to the type of business.


C. A. MAGUIRE

For the most part our customers are independent retail food merchants operating grocery stores, superettes and supermarkets. We also sell to restaurants, hotels, camps and institutions, but these usually have had good insurance advice from their attorneys or other interests. *(Continued on page 33)*

A Problem for the Book and How It Was Solved

A Feature Series on MANAGEMENT AT WORK

ORVILLE B. TEARNEY
Manager of Credit and Corporate Insurance
Inland Steel Company, Chicago, Ill.

ONE OF the specific objectives of a well organized Credit Division is to supply financial counsel to customers. Certainly adequate comprehensive insurance is part of any well-planned program of credit and financial management, and its importance should not be underestimated. To learn, after a painstaking investigation, analysis and evaluation of a buyer's credit, that he suddenly and by causes entirely beyond his control may be deprived of the ability to pay his debts, would be an indication of a lack of thoroughness in doing our job, to say the least. While it may not be your responsibility as a credit executive to determine that your customer's insurance program is adequate and fully effective, it seems to me that by not doing so you are limiting the factors which assure you of payment of your bills within terms.

Aspects of Insurance as Credit Factor

Insurance as a factor in credit should be viewed in two important aspects:

(1) Protection of the customer's assets for his benefit;

(2) Protection of your investment as a creditor of his business.

In the first instance, the purpose of his insurance program is to protect him from monetary loss due to any occurrence which causes damage to or loss of his property, or injures another person or damages property for which he may be responsible.

There is little romance about an insurance policy itself; it has no utility and little value except as a record. If there never is a loss it is like a vein of gold never uncovered. It must, however, be completely effective when the insurer is notified of a loss. If it is inadequate or defective the loss is not limited to the premium investment but may result in total impairment of the financial position of the policy holder.

Every credit executive should be an exponent of his company's public relations program; if it has no formal plan he should have one of his own. If he is effectively doing his own job he will see to it that his customer receives all the service his company can offer. If you give your customer metallurgical data or packaging advice, is there any reason why he should not have available to him information also on his insurance needs?

If you as an individual have not had sufficient experience in insurance matters to convey this information, your insurance manager should be willing to assist you. Your accounts receivable are assets of your company, and it his job to protect those assets by one means or another.

We shall review an actual case and see how suggestions arising out of an insurance review strengthened a customer relationship.

A new business was started by individuals having considerable technical ability but limited capital. Some credit was extended on a secured basis. As the customer demonstrated his ability to make a profit the line of credit was increased. The credit manager gave the account extremely close supervision, having monthly and sometimes weekly conferences with the principals. Finally the situation indicated that the firm was entitled to some bank support. This was established with the cooperation of the supplier.

The potential purchase volume of this customer was so substantial that the vendor's sales and finance departments not only made a complete review of manufacturing facilities and management but also made use of a market survey. The location of both supplier and customer was ideal from a transportation standpoint, and the special product manufactured by the vendor was very desirable according to the customer's specifications. It was suggested to the customer that a more prominent firm of certified public accountants be engaged because the new volume of business brought about numerous tax and cost problems.

Customer's Insurance Program Studied

At this point the credit executive and a representative of the insurance division of the supplier met with the auditors and the treasurer of the customer company and the banker, and reviewed the existing insurance program.

The following points were studied:

(1) Examination of current contracts and selection of the types of insurance best suited to his particular needs, so that special hazards to

ORVILLE B. TEARNEY, manager of corporate insurance and credits, Inland Steel Company, Chicago, is an alumnus of the De La Salle Institute and Loyola University and a graduate of the executive program of professional business education of the University of Chicago.

Mr. Tearney is a past director of the Chicago Association of Credit Men and a member of the N.A.C.M. insurance committee.

which his business is susceptible would be carefully analyzed and complete protection provided.

(2) Examination and combination of all similar coverages into one policy, to avoid overlapping.

(3) Determination of sound application of self-insurance.

(4) Factual presentation of insurance experiences, distribution of values, insurance costs and premium payments for guidance in rate negotiations and for loss adjustments.

(5) A careful analysis to determine the adequacy of life insurance on the principals for the benefit of the business and protection of the creditors.

How the Program Was Revamped

As a result of this study:

(1) The physical damage contracts were rewritten to accomplish the tailored form necessary to provide protection from certain special hazards, and were broadened to include coverage for several other perils.

(2) Business interruption insurance not previously carried was added.

(3) A single comprehensive public liability policy was written, with increased limits replacing four separate policies.

(4) A new workmen's compensation insurance contract was written, and a procedure set up for proper safety supervision.

(5) Life insurance on the principals for the benefit of the business was changed so that total coverage was increased and the policies made uniform.

A considerable saving to the customer resulted from the rearrangement of the insurance coverages. There was a substantial gain in goodwill by the supplier.

Trusting the Employees Is Too Expensive

Fidelity Insurance One Answer to Annual "Take" of Half Billion

By F. C. AYRES
Assistant Vice President
United States Fidelity and Guaranty Company
Baltimore, Maryland

Want is not the sole incentive to crime; men also wish to enjoy themselves. They may desire superfluities in order to enjoy pleasures unaccompanied with pain and, therefore they commit crimes.—Aristotle, in the "Politics."

ALTHOUGH the practice of one becoming surety for another goes back to Biblical days, there is daily proof that an untold number of employers, fully cognizant of the danger of being without insurance against fires, accidents and other perils over which they have no control save for certain mechanical safety measures, are totally indifferent to the fact that employee-dishonesty is a major hazard which, not properly guarded against, can wreck an organization just as effectively as any other disaster.


F. C. AYRES

Why is it that they seek insurance against damage to their buildings and the contents from fire, flood and other risks, but are slow to purchase fidelity insurance against dishonesty, to protect the very income and profit which the buildings and contents produce?

Employee-dishonesty is big business today. The annual "take" from American employers is estimated at more than $500 millions, represented by 500 inside thefts each working day. The true dimensions of this insidious abuse of confidence will never become apparent because many victims never admit or publicize their losses. It is well established, however, that no business escapes dishonesty forever, and there has been a steadily rising trend in frequency and severity of losses of money and property.

The great scientific and educational minds have yet to come up with the solution. About all that is known is that while internal fraud can be discouraged it cannot be prevented, and that employees plus need or desire plus opportunity equals embezzlement.

With the possible exception of the out-and-out criminal class and those who steal for the fun of it, some moral and financial pressure usually is at the root of abrupt departure of a trusted employee from the path of rectitude. It may be living above means; hopes of getting rich quickly by speculation or gambling; excessive use of drink or drugs; family difficulties; even resentment against the boss for fancied or real wrongs done.

The woman assistant treasurer of a machinery company had been employed 12 years. She began playing the races five years ago. After losing all her own money, she used $42,000 of her employer's funds in attempting to recoup. Her embezzlements were made easy as the company officials countersigned blank checks for her convenience in making disbursements.

Dreams of a movie star career for her daughter, Jill, 17, led the 47-year-old bookkeeper of a valve company to embezzle nearly $30,000 from her employers. She said the money was spent in straightening Jill's teeth, on various modeling and drama courses, and an apartment in Hollywood. Oddly enough, her thefts also were made easy by the use of pre-signed blank checks.

Many embezzlements are brought about by a series of small thefts—siphoning small amounts of cash or property until the total sometimes reaches large proportions.

The order clerk for a feed manufacturing company started by taking a $1.90 bag of chicken feed for his flock, intending to pay for it next payday. He wound up with a shortage of more than $14,000 over a period of four years. The stock clerk for a wholesale tobacco distributor found a ready market among shady retailers for $21,000 worth of cigarets which he took from the warehouse by carton and case, over a period of two years.

History shows that in a world constantly changing, man always has resisted change. There is nothing new in the refusal of men to believe what they do not want to believe, and it is a matter of grim record that the average employer scoffs at any suggestion that one dishonest employee is a real threat to the financial security of his business.

"My employees have been with me for years and I trust them." That is one of the most shopworn excuses given by an employer for not carrying fidelity insurance. Employees who are not trusted rarely build up a long service record with any one employer, but longevity is not a guaranty of unfailing integrity.

The accountant of a hardware dealer was trusted for the 11 years of his employment. He lived modestly on a salary of $6,000 a year, did not smoke, drink or gamble. When he contracted to buy an expensive house, suspicions were aroused. A shortage was discovered. Little of the $70,000 he had stolen in the last five years of his employment was recovered.

A nagging wife caused the auditor of a large life insurance company to embezzle $87,000 in the last three

Add These to "Famous Last Words" of Non-Users of Fidelity Insurance

"My employees have been with me for years and I trust them."

"My employees handle little or no money. Practically all transactions are by checks."

"I have such a complete check on my employees that it would be impossible for any of them to default."

"Can't afford it. We're insurance-poor now."

years of his 25 years of service. She demanded luxuries beyond his earning power. He found it easy to manipulate the accounting system, which he had helped to install, to put through fictitious claim drafts which he subsequently picked up and cashed.

"My employees handle little or no money. Practically all transactions are by checks." Here is another fidelity insurance brush-off used by the busy executive. Easily disposed of merchandise—the employer's stock in trade—is just as attractive to some employees as cold cash.

A 20-year-old shipping clerk recently was charged by police with the theft of $1,108 worth of salad dressing, mayonnaise, relish and sweet pickles from his wholesale grocer employer. Six order fillers of a drug manufacturer were arrested and convicted of misappropriating drugs valued at $56,000 in ten months. The thefts were accomplished by the simple expedient of strapping the containers on their bodies with adhesive tape, also taken from stock.

"I have such a complete check on my employees that it would be impossible for any of them to default." Another employer-objection to the purchase of fidelity insurance. While the importance of a sound and comprehensive system of controls over cash receipts and disbursements, accounts receivable and inventories cannot be over-emphasized, no plan ever has been conceived or practiced which would prevent accumulated thefts, as well as "quick steals," by employees either alone or in collusion with fellow employees or outsiders.

Public accountants never have hesitated to say that no one has yet been able to devise any method which would eliminate the hazard of employee-dishonesty, and never will, since the human element en-

(Concluded on page 39)

FENTRESS C. AYRES, who holds the corporate title of assistant vice president of United States Fidelity and Guaranty Company Baltimore, has been head of the mercantile fidelity department since 1923. U.S.F. & G., which he joined in 1914, has been his one employer, excepting Uncle Sam during his stint in the Army in World War II.

Mr. Ayres is regarded by fidelity writers as one of the best posted men in America in this area of insurance.

SUPPLIER'S credit manager will see to it that his accounts receivable from the attractive supermarket don't go up in smoke too, by helping to work out the insurance program

FIRE HAZARDS IN SUPERMARKETS

By ROBERT T. FOOTE

Special Representative

Hartford Fire Insurance Company
Chicago, Illinois

TRULY, the corner grocery store has grown up. "Supermarkets" and "Shopping Centers" have become accepted as normal business operations. With this growing-up process, however, have come increased difficulties in properly maintaining (1) adequate fire prevention and (2) insurance protection, for the tremendous values now subject to a single catastrophe.

R. T. FOOTE

Following an alarming increase in fires among supermarkets in recent months, a survey indicates two critical factors: (1) A large percentage of these fires has resulted in *total losses,* and (2) almost every fire *could have been prevented* by common sense and relatively inexpensive well-known fire prevention methods.

Certain specific physical features have been, in the main, causes of these serious fires.

Supermarkets began with the use of existing, normally large area buildings — former skating rinks, bowling alleys, garages, even car barns. Usually, these buildings were within adequate city fire protection. The problem of size, therefore, was not so severe as it is today (although even modern fire departments often have been unable to cope with the large and rapidly spreading fire normally encountered). Then came the accelerated construction, anywhere, apparently, without regard to the fire fighting facilities, but based almost solely on consumer potentiality. Outlying areas seldom have adequate water mains, if any, and the large concentration of combustible building and contents has been just too much for the available water and manpower.

This feature of "bigness" without proper fire subdivisions or automatic sprinkler protection is probably the most fundamental defect of the many inherent in the supermarket structure.

The brilliantly lighted attractiveness belies the hidden conditions which have resulted in uncontrollable fires. Large single-span roof areas, blank exterior walls, combustible ceilings and insulation, and improperly located ventilators, are all defective conditions.

ROBERT T. FOOTE holds Phi Beta Kappa honors from Pennsylvania State College, where he obtained his master's degree and was an instructor of mathematics. In 1949 he became an inspector for the Hartford Fire Insurance Company, Chicago office, western department. Last year he was advanced to special representative.

Experienced assistance is essential to cope with these physical problems and arrange for proper insurance protection. Such assistance is readily available from competent local insurance agents and brokers. By properly consulting the qualified authorities—company fire engineers, recognized fire prevention organizations and local State Fire Insurance Rating Bureaus — proper construction can be determined, not only to eliminate the most serious defects but also to obtain the lowest possible rate. Preferably this consultation should take place in the planning stage. If this is not possible, defects noted during construction can often be corrected before completion. Extension of existing water mains and installation of nearby hydrants is another extremely important consideration. The local agent or broker is in an unequalled position to help obtain such protection.

Remedying Most Common Faults

Although specific construction defects can best be remedied in accordance with the detailed recommendations of the proper authorities, it may be helpful to consider some of the means by which the most common faults can be prevented:

(1) Subdivision of the large, single-span roof areas by standard fire walls between the front store area and the rear utility section where nearly all such fires have their origin. Obviously, good business management dictates that the

extremely high values in the selling area should not be exposed to possible destruction through the burning of the relatively low value, small area, refuse and utility sections. A standard masonry fire wall, adequately parapeted above the roof level, with openings protected by approved fire doors, would accomplish effective separation, providing that fire doors are properly maintained and are not blocked open by indiscriminate stock storage.

(2) **Elimination of blank exterior walls.** The advantages of their utilitarian purpose to reduce food deterioration by sunlight and heat transfer are far outweighed by (A) the almost impossible task encountered by the fire department in effectively combating a fire, and (B) the delay of the all-important first alarm.

(3) **Elimination of combustible ceilings** or proper treatment with approved flame-retardant materials, resulting in much less rapid spread throughout the usually large area. Strictly non-combustible insulation should be used. It is equally important that the insulation covering, if any, be non-combustible.

(4) **Proper location of ventilators** to compromise between the advantage of upward fire venting and the resultant greater burning due to increased draft.

(5) **Elimination of concealed spaces** between the ceiling and roof, or proper subdivision by standard draft stops.

Internal Causes of Supermart Fires

One would not think the apparently low-hazard supermarket occupancy contains severe causative hazards, but these markets have been burning at a rapid rate and the causes certainly have been internal rather than external. Neglected housekeeping, poor storage conditions for large quantities of combustible refuse, improper care of refrigeration apparatus, promiscuous smoking by both clerks and patrons, incorrect installation of heating equipment and incinerators, and non-standard wiring—these are but a few of the potent inherent hazards causing annual dollar losses in the millions.

To safeguard these occupancy hazards properly is relatively simple and inexpensive requiring mainly common sense coupled with strict supervision.

Readily available to any insured through his agent or broker are the details of technical standards which

(Continued on page 26)

Appraisals That Don't Appraise

Usually Out-of-Date Records, Not Adjusted for New Equipment

By **J. F. BOEHNER**
Regional Supervisor
Western Adjustment and Inspection Company, Chicago, Illinois

INSURABLE VALUES have been defined as synonymous with actual cash value. The standard fire insurance policy insures the named insured "to the extent of the actual cash value of the property at the time of loss, but not exceeding the amount which it would cost to repair or replace the property with material of like kind and quality within a reasonable time after such loss, . . ."

J. F. BOEHNER

Early Agreement on Procedure

The provision relating to requirements in case of loss is the key to prompt and equitable loss adjustments. This reads in part: "The insured shall . . . protect the property from further damage, forthwith separate the damaged and undamaged personal property, put it in the best possible order, furnish a complete inventory of the destroyed, damaged and undamaged property, showing in detail quantities, costs, actual cash value and amount of loss claimed. . . ." To make certain a complete agreement between the insuror and the insured, it is beneficial to agree on the procedure required in each instance as soon after the loss as is possible.

Another provision generally found in policies insuring mercantile, manufacturing and large values is the coinsurance or contribution clause. This provision, for which a rate credit is allowed, requires the insured carry insurance equal to or greater than the percentage stated of the value insured—usually 80 or 90 per cent, although 100 per cent is common today on stock policies.

Many courts have held "actual cash value" to be the cost to repair or replace less a proper deduction for depreciation. Other noted cases have allowed consideration of market value as a factor. In the McAnarney case the court held that "where insured buildings have been destroyed, the trier of fact may, and should, call to its aid, in order to effectuate complete indemnity, every fact and circumstance which would logically tend to the formation of a correct estimate of the loss. It may consider original cost, and cost of reproduction; the opinions upon value given by qualified witnesses; the declarations against interest which may have been made by the assured; the gainful uses to which the building might have been put; as well as any other fact tending to throw light upon the subject."

AFTER attending the University of Nebraska, J. F. Boehner joined Western Adjustment & Inspection Company in 1936 in the head office in Chicago, then served as staff adjuster in Indianapolis, South Bend, and Joplin before appointment as resident adjuster in Chillicothe, Mo., in 1941. Following Navy service he returned to Joplin. Transferred in 1947 to the Minneapolis branch, he advanced to general adjuster for Minnesota. In 1950, Mr. Boehner was promoted to general adjuster and later that year became regional supervisor of the Chicago Metropolitan area's eight branch offices.

Mr. Boehner is on the board of lecturers of the Chicago Insurance Institute.

Thus we feel that basically the determination of insurable value includes all phases of approach giving consideration to cost of reproduction, depreciation due to obsolescence and use as well as physical wear and tear. Each case must be given individual consideration, applying the factors involved in order to reach "insurable value." Tax schedules for determining rates of depreciation cannot be used for insurance purposes.

There are other methods of arriving at valuations, such as for tax purposes, accounting and real estate valuations for determining market value based on income return. These forms of appraisal are not of any value in determining the actual cash value to be insured.

The most common forms of appraising values for insurance purposes are:

(1) Detailed appraisals by appraisal companies.

(2) Computations arrived at by the insured's engineers or accounting department.

(3) Appraisals by insurance companies.

(4) Survey made by outside contractor.

The computations are basically for the purpose of assisting the insurance buyer in his determination of insurable value at a given location and involving certain designated property. But we must go further. Equally important is a sound detailed analysis which can be presented to the insurance adjuster after a casualty has occurred. After all, it is the summation of the individual items that determines the total insurable value.

Burden of Data on the Insured

The burden of presenting the detailed data rests with the insured. They must include sufficient description properly to identify the items as well as the current replacement cost, depreciation, value and loss.

Appraisal companies' computations, from the adjuster's viewpoint, usually are in sufficient detail and well organized, though occasionally we find reason to disagree with the rate of depreciation. Our most frequent complaint is that the appraisal has not been kept up to date, and replacement of worn-out equipment not adjusted for ins and outs. Building appraisals sometimes are trended after original calculations, not always an accurate method. Such appraisals when kept up to date, at least on an annual basis, with proper consideration for all insurable property, provide valuable evidence of value upon which the insured has determined the amount of insurance required under his policy.

Computations made by the insured's engineers, or accounting department, as a rule have not been as concise as we would like on buildings. Too often a square or cubic foot unit price is used. This is not really accurate. Determination of

value of buildings must be itemized in detail by trade.

Since the last war there has been a decided change in construction costs as a certain trade compares to another in the increased cost. For example, the cost of one trade may have gone up 200 per cent and that of another only 150 per cent for reconstruction of the same building.

Values of contents usually are based on acquisition costs, which is not a sound footing for determining insurable value. Even in the case of a certain type of stock, values sometimes vary considerably even in a 30-day period. Insured's employees many times fail to grasp that current replacement costs are needed as a basis before depreciation.

In most cases where insureds rely on accounting records, we find that the value of many items charged to expense in today's operations of the business are inadvertently omitted in the value calculations for insurance. This may be a situation reversed, such as the defense plant that made expensive cost plus or experimental installations in the last war. These replacement costs today may be considerably less. Such difficulties are wellknown to many insureds, who have taken the time and gone to the expense of obtaining proper information. You may be sure the adjuster has no difficulty with that type of insured.

> ***"Our most frequent complaint is that the appraisal has not been kept up to date, and replacement of worn-out equipment not adjusted for ins and outs."***

Accommodation to Buyer and Agent

The appraisal service by an insurance company is in most instances strictly an accommodation to the insurance buyer and his agent. Most companies do not have their organization staffed with such experts. Their job is fundamentally one of engineering from a hazard standpoint, to minimize the possibilities of a fire or other casualty. Fire rates are not predicated on enabling the companies to maintain the type and size of staffs necessary to do a complete appraisal. Here again, in most cases, their representatives must resort to square or cubic foot calculations as a basis for replacement cost. This type of calculation does not

(Concluded on page 39)

Take Bill, John, George; Business Interruption Insurance Has Much to Offer Each of Them

Prefacing his article on business interruption insurance, Secretary H. C. Klein of the New York Underwriters Insurance Company and superintendent of its special risk department, writes *Credit and Financial Management* as follows:

"To make this review realistic, I have 'created' three individuals likely to be encountered in every community. They are the Peebee brothers—Bill, John, and George. The 'Peebee" stands for 'Prospective Buyer.'

"Think of Bill as trustee of a private school and operator of a factory occupying two buildings. One, of frame construction, is in the business district, the other on the outskirts of town. The factory manufactures motors, some for Jones' washing machine plant, others for Smith's vacuum cleaner factory, using castings made in Jackson's foundry.

"John Peebee is the sole owner of a drugstore. George manages a laundry and is part-time sales agent for products of a southern Texas textile mill."

***The credit executive will find the article replete with evidences of the vital interrelation of a sound credit and insurance program, for his own company and his customers.*—Editor.**

The author is secretary of the New York Underwriters Insurance Company and superintendent of its special risk department. A specialist in all the time element forms of insurance, he is a frequent speaker at forums.

Mr. Klein's book, "Business Interruption Insurance," now in its second edition, is a complete analysis of this coverage, and a best seller.

By H. C. KLEIN, Secretary

New York Underwriters Insurance Company, New York City

WHY IS business interruption insurance most important? Because it protects the earnings and profits which are the mainspring of all business enterprise, small or large, and our national economy.

H. C. KLEIN

Where are the exposures that require the protection of some form of business interruption insurance? Among the Peebee brothers there are three kinds that need direct coverage—Bill's factory, the private school of which he is a trustee, John's drug store; and five that require contingent coverage—Bill's factory with four contingent exposures, and George's sales agency with one exposure.

Choice of Two Forms of Policy

Beginning with Bill Peebee's factory, obviously direct business interruption insurance is needed to protect the earnings derived from the manufacture of motors. Since the two units are operated interdependently, they should be covered by a policy written blanket and computed by the floor area method.

Bill has a choice of two forms of policy, the Two Item Form No. 2 under which he can specifically insure ordinary payroll for a specific period of time, and the Gross Earnings Form No. 4 which covers ordinary payroll blanket with other expenses to the extent their continuance is necessary.

If the ratio of his expense of ordinary payroll and heat, light and power to gross earnings is higher than 30% and he is willing to buy a limited amount of insurance on ordinary payroll, he will find the Two Item Form the less expensive on the basis of the Eastern rate formula.

But if he desires the better contract and the difference in cost is not prohibitive, he will choose the Gross Earnings Form for several reasons. Its work sheet, used to determine the amount of insurance needed to comply with the contribution clause, requires only two figures, the annual sales value of goods produced and the annual cost of raw stock and supplies, whereas the work sheet for the Two Item Form also requires data on the annual expense of heat, light and power and the expense of ordinary payroll not only on an annual basis but also for the 90 days when payroll is highest.

By not requiring any information concerning ordinary payroll expense, or the identity of employees classifying as ordinary payroll, until a loss occurs, the Gross Earnings Form relieves the policyholder of the necessity of reaching decisions respecting ordinary payroll until the extent and duration of a suspension of operations determine the claim justified by the circumstances.

If Bill were opposed to buying any ordinary payroll insurance whatever, as many manufacturers are, his choice would fall on the Two Item Form written without coverage under the second item. However, the time is coming, and probably soon, when the desirable Gross Earnings Form will be available with coverage of ordinary payroll excluded, thereby eliminating the need for the Two Item Form and making the Gross Earnings Form adaptable to all situations.

If the buildings of Bill's factory were all at one location he would have the choice of four percentages of contribution under the Gross Earnings Form, whereas only 80% is available under the Two Item Form. But since he must have blanket coverage over his two interdependent locations, he has the choice of only two percentages, 70% and 80%.

Protection Given for Increased Time

As the downtown frame buildings of Bill's factory are inside the area in which, under a local ordinance, all buildings that are 50% or more destroyed may not be rebuilt except entirely of fire resistive construction, the agent recommended that the standard demolition-and-increased-time-to-rebuild indorsement be attached to the business interruption policy for an additional premium. This indorsement assures recovery for the increased time required to demolish the undamaged portions and rebuild both damaged and undamaged sections of fire re-

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From an address by Secretary Klein opening a forum on business interruption and time element insurance, in Newark, N. J.

sistive construction. The additional coverage can be of great importance to operators of businesses within municipal fire limits.

Bill is dependent upon a public utility power plant for electricity, and any damage to the power plant or the transmission lines can deprive him of essential electric power. He can inexpensively protect that exposure by having the policy extended by indorsement to include coverage of the outside power plant and transmission lines.

Accordingly, Bill's factory was covered by direct fire and extended coverage business interruption insurance, written under the Gross Earnings Form, subject to 70% contribution clause, and demolition-and-an-increased-time-to-rebuild and off-premises-power-and-transmission-line indorsements. As the earnings from his factory were not decreasing, he would not derive any benefit from a premium adjustment indorsement, which requires a minimum premium of $500 and, unlike premium adjustment policies on stock, requires compliance with a coinsurance clause.

Bill's factory also is dependent on Jackson's foundry, which has contracted to produce the castings required for the motors. Since Bill does not operate the foundry, it must be covered by contingent business interruption insurance of the contributing properties edition, written for the same amount as the insurance on Bill's factory. The rate charged for the contingent coverage is only one-half of the business interruption rate on the foundry.

Bill is also dependent upon the continuing ability of Jones' washing machine factory, and Smith's vacuum cleaner factory, to use the motors Bill has contracted to manufacture for them. Therefore, Bill needs business interruption insurance of the recipient properties edition, which will indemnify him for his loss of earnings if Jones or Smith, shut down by property damage, is unable to accept delivery of Bill's motors.

This form can be written to blanket the recipient plants of Jones and Smith at a rate equal to 50% of the highest rate of the two plants, in which case the amount of insurance should be identical with the amount of direct business interruption insurance applying to Bill's factory. Or it can be written to cover each recipient plant specifically at 50% of the rate of each plant, in which case

(Concluded on following page)

the amount of insurance applying to Jones' plant should be determined by Bill's earnings dependent upon Jones' plant, and the same procedure should be followed for the contingent coverage applying to Smith's plant.

Tuition Fees Insurance for School

Bill also arranged for the agent to appear before his fellow members of the board of a private school and explain the special type of business interruption insurance known as tuition fees insurance.

The agent pointed out that the contracted professional personnel salaries were a continuing obligation irrespective of fire damage, also that students will transfer rather than lose a year if the school of their first choice is shut down by property damage. Tuition fees insurance indemnifies for loss of earnings sustained beyond the time required for repairs and replacements.

While the school might continue operations in various temporary quarters, covered by extra expense insurance, the board decided on tuition fees insurance in an amount equal to 80% of the gross annual tuition fees plus other income from student sources, choosing the 80%

> ***"The time is coming, and probably soon, when the desirable Gross Earnings Form of business interruption insurance will be available with coverage of ordinary payroll excluded, thereby eliminating the need for the Two Item Form and making the Gross Earnings Form adaptable to all situations."***
>
> **—H. C. KLEIN**

contribution clause and thereby obtaining 33⅓% more insurance for only 10% more premium compared with 60% insurance to value. The extra expense insurance also covered the school's summer camp.

Protecting Drugstore's Earnings

Now to brother John's situation as the proprietor of a drug store. Because this is a one-man business providing the earnings for his family's support and education, business interruption insurance here is in a real sense business accident and living standard insurance for John and his family.

John Peebee's store presents a situation for which the gross earnings form is made to order. John must only disclose to the agent the amount of his annual gross earnings and estimate the loss he may suffer in net profit and expenses that will necessarily continue during the longest period of time required to rehabilitate his store in the event of a burn-out at the beginning of John's busiest season. John need not disclose separately the amount of net profit or the wages or taxes he pays.

Assuming John's annual sales are $60,000, he probably will estimate his gross earnings at one-third, or $20,000, which indicates insurance of $10,000 with a 50% contribution clause. He probably will estimate his loss possibility at $11,000, the sum of his salary, net profit, wages of key employees, taxes, and necessary advertising during the six or seven consecutive months of his busiest season when his store may be shut down. Since the estimate of possible loss exceeds the $10,000 which will comply with the 50% contribution clause, and since a cushion against unforeseen contingencies is always advisable, he took out a policy for $12,000, attaching the 60% instead of the 50% contribution clause, giving the insured the benefit of the reduced rate.

Brother George has an exposure of a type seldom protected by business interruption insurance, namely, exposure to his loss of commissions during a shutdown of the textile mill due to property damage. This form of protection is a variety of contributing properties contingent business interruption insurance known as selling agents commission insurance.

George, also manager of a laundry, informed the insurance agent that the friendly owner of a competing laundry, for a consideration, would help George to continue serving his customers. The agent then recommended extra expense insurance, but warned Mr. Peebee that in case he ever had reason to feel his friend would not come to his assistance, he should replace the extra expense insurance with business interruption insurance.

Mr. Peebee estimated that the extra expense in continuing business with his friendly competitor's assistance would amount to $2,000 the first month. To cover unforeseen expenses, George bought $10,000 insurance paying $4,000 the first month, $7,000 the first two months, $9,000 the first three months and $10,000 if four or more months were required to rebuild or repair the damage or if the lease were canceled and the structure not rebuilt.

More Protection for Bill, Too

Bill Peebee is also president of the bank. Advised of George's policy, Bill took out extra expense insurance for the bank, realizing that immediate reopening of a bank closed by property destruction is imperative in the public interest and that emergency resumption of operations entails extra expense.

Such expenses include special police and watchman service, moving expense (including armored cars to transfer money and records), rent and alterations, overtime, public announcements of emergency facilities, and bonuses for expedited services.

Bill suggested that the agent cite the advantages of extra expense insurance to John as trustee of his church and lodge.

The credit executive would do well to call to the attention of his own company and its accounts the loss exposures here reviewed and suggest they contact bonafide agents to arrange for the needed business interruption insurance.

Here's Everyman's Responsibility That Calls for Protective Action

LEGAL LIABILITY IN FIRE

By R. A. WINSLOW
Assistant Counsel
Liberty Mutual Insurance Companies, Boston

ONE whose negligence causes a fire or allows a fire to spread is liable for damages or injury thereby caused to other persons. This is the law in the United States,[1] subject only to the qualification that in a few states it has been modified by statute. This liability rests on every man and every enterprise—the farmer and the home owner, the railroad, the mine owner, the merchant and the manufacturer.


R. A. WINSLOW

Fires do not just happen. They are caused—caused in almost every instance by human carelessness. Every fire prevention engineer, every fire marshal will confirm that statement. That there is not more litigation is due in large part to the fact that in many cases the damage from accidental fires is confined to the owner-occupied premises where the fires originate. Next, investigation of the usual fire loss, even one which spreads beyond the premises, usually is stopped before responsibility is determined.

Finally, fire insurance companies have been conservative in prosecuting fire subrogation (substitution of one creditor for another, to compel ultimate discharge of a debt by the one who should pay it, and to prevent unjust enrichment of one party at another's expense). A change in the attitude of fire companies toward subrogation will result in more careful investigation of causes of fires, hence in more fire subrogation litigation. Successful subrogation transfers the fire losses from the fire companies to the casualty companies.

How onerous is the burden imposed by the present rule of fire legal liability on one who negligently causes a fire which damages other persons? How far does the liability imposed extend? Was Mrs. O'Leary liable in damages for all the property destroyed and all the persons killed or injured in the great Chicago fire, assuming that the fire was caused by her cow kicking over a lantern? The legal rationale is that a reasonably prudent person, knowing cows may kick while being milked, would have placed the lantern out of the cow's reach while he was milking her. Failure to observe that precaution was negligence.

Once a person, by his negligence, sets in motion a train of circumstances which causes injury to others, he is liable for all such damage unless he can show that all or a part of the damage resulted from an intervening cause which he could not foresee and for which he is not responsible.[2]

RICHARD A. WINSLOW, educated at Tufts College and Northeastern University Law School, joined the Liberty Mutual Insurance Companies in 1931 as claimsman while still at law school. After graduation he was transferred to the legal department. In 1943 and 1944 he was in charge of the Worcester legal department. He became assistant counsel in 1949 at the home office in Boston, and is responsible for coverage problems, drafting forms, etc., all general matters with legal connections.

An extreme case of fire legal liability was the Texas City litigation. Eighteen hours after a fire on the steamship *Grandcamp* and resultant fires and blasts, there came the explosion of another ship loaded with ammonium nitrate. All who were injured, or whose business or property suffered loss, sought damages from the owners of the *Grandcamp* and from the United States, the manufacturer and vendor of the ammonium nitrate in which the fire started and the explosion of which spread the disaster far and wide. The principal fact defense of the United States was that a reasonably prudent man would not have foreseen the manner in which the ammonium nitrate was handled by the stevedores and by the officers and crew of the *Grandcamp*, hence that their conduct was an intervening cause insulating the United States from liability. The trial court found against the Government on that issue. The language by Trial Judge Kennerly is interesting.

"All the deaths of persons, injuries to persons, and injury to property which occurred in such disaster were directly traceable to and proximately caused by the presence of the fertilizer, and the burning and the explosion of the fertilizer on the *Grandcamp* and the *High Flyer*," said the judge. "All of said fertilizer stored on the *Grandcamp* and the *High Flyer* was manufactured or caused to be manufactured by defendant, placed in sacks by defendant, shipped by defendant to Texas City, and caused or permitted by defendant to be loaded onto such steamships for shipment abroad . . . All was done with full knowledge by defendant that such fertilizer was an inherently dangerous explosive and fire hazard, and all without any warning to the public in Texas City, or to persons handling same."

The United States Fifth Circuit Court of Appeals, in 197 F. 2d 771, reversed the trial judge on various points, including the matter of whether the Government was liable for its negligence in this case. Then the case was carried to the United States Supreme Court, where the majority of the Court held that the federal tort claims law did not apply because the damages resulted from the carrying out of a discretionary function by the Government.

Nevertheless, the liability rule applied by the trial court has not been limited by statute in any state. The courts of two states, New York and Pennsylvania, have attempted to limit the liability, in the case of buildings destroyed by fire, by holding that the negligent fire was not the proximate cause of any loss be-

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[1] 22 Am. Jur. 597

[2] Sycamore Preserve Works v. C. & N. W. Ry. Co., 7 N.E. 2d 740 (Ill., 1937); 22 Am. Jur. 601; 42 ALR 783; 45 ALR 870; 111 ALR 1141.

yond the first building adjoining.[3] These decisions have been condemned as unsound by the courts of other states, and the doctrine on which they are based has not been uniformly followed even in New York and Pennsylvania.[4] In short, the liability is an onerous one against which the prudent businessman and home owner will protect himself by insurance.

Problems Raised by Liability

The existence of this liability raises several questions of interest to businessmen.

First, some persons urge that the fire insurance companies, by inclusion in the standard fire policy of a clause by which the insurer waives any right of subrogation on account of any payment under the policy, can solve the whole fire legal liability problem. This suggestion is supported by some plausible arguments, such as the statement that an insurer which accepts a premium for accepting a risk should not be allowed to recover from a third party a payment it has made pursuant to its policy.

Another argument is that because subrogation recoveries by fire companies are not reflected in fire rates, such a recovery, particularly when the loss is paid by a casualty company, results in a double charge against the insurance premium rate structure, once in fire losses and again in casualty losses. I understand that both fire and casualty manuals relating to insurance for fire legal liability on real property in the care, custody or control of the insured establish a rate for such coverage of 25 per cent, or in some jurisdictions 50 per cent, of the applicable fire rate.

No doubt many persons believe that insurance companies invented subrogation to avoid losses they had agreed to assume. Nothing could be farther from the truth. The fact is that the principle of subrogation is older than the commercial insurance business. It had its beginnings in ancient Roman Law.

Under the New York disability benefits law, an insurance carrier paying benefits to a person injured at home, let us say, by a fire caused by the negligence of such person's landlord, is subrogated in the amount of its loss to the injured person's right of action against the landlord. A waiver by compensation carriers and disability benefits carriers in such cases would accomplish nothing except to increase the losses charged back to the public in the rate structure. In short, the present considerable volume of bodily injury fire legal liability litigation will continue. The fire companies cannot, by any change in fire policies, affect it substantially.

Next, how will insurance companies meet the special problems growing out of the many variations of the landlord and tenant relation? Under a simple lease agreement either party may recover from the other for any damages caused him by such other's negligence. Many leases, probably more than half, contain clauses which change this simple situation one way or the other.

"Once a person, by his negligence, sets in motion a train of circumstances which causes injury to others, he is liable for all such damage unless he can show that all or a part of the damage resulted from an intervening cause which he could not foresee and for which he is not responsible."

For instance, in the General Mills case[5] it was held that an agreement by the tenant in the lease to return the premises at the end of the term in good condition, *"loss by fire and ordinary wear excepted,"* operated to release the tenant from liability for the destruction of the building by fire caused by his negligence.

This case, while it illustrates the principle that parties to a lease can, by agreement, fix the duties which each owes the other, has been much criticized by lawyers and is not entitled, in my opinion, to the weight which it is being given by businessmen and insurance companies.

The case arose in Minnesota. The precise legal point at issue, the effect to be given to the clause cited in regard to damage to the building by fire, never had been decided by the supreme court of Minnesota. The United States circuit court of appeals in its opinion stated what it believed was the law of Minnesota. It follows that the rule of law laid down in the decision has a binding effect only on United States district courts in Minnesota and, under the present rule of the United States Supreme Court,[6] is not binding on the Minnesota supreme court, which remains free to rule, in an exactly similar case, that the tenant is liable.

Nature of Operations Fixes Rate

In the case of an entire building leased to and occupied by one tenant, the nature of the tenant's operations fixes the rate to be charged for fire insurance on the building. That rate contemplates the hazard of fire resulting from the occupant's negligence. Does it not follow that in such a situation the fire insurance on the building, even though carried by and in the name of the owner, should likewise protect the tenant to the extent he is liable, either in contract or tort, for damage to the building by fire? How can this desirable result be accomplished? When the landlord is willing to waive, by agreement in the lease or elsewhere, his right of action against the tenant for subsequent damage to the building by fire caused by the tenant's negligence, the fire policies on the building can and should be indorsed to give full effect to such agreement.

When Owner Cannot Agree to Waive

Almost every fire manual carries a rule providing for such indorsements,[7] entitled "Waiver of Subrogation." Often, however, an owner cannot, for sound reasons, agree to waive his right of action. He may be subject to a coinsurance clause in his fire insurance policies. He may not carry and may not be able to get fire insurance to the full value of the building. If the building be damaged by fire caused by the tenant's negligence, the proceeds of the fire policies should in good conscience

[3] Moch v. Rensselaer Water Co., 159 N.E. 896 (New York, 1928); Bird v. St. Paul Fire & Marine Ins. Co., 120 N.E. 86 (New York, 1918); Hoffman v. King, 55 N.E. 401 (New York, 1899); Penn. R. R. Co. v. Kerr, 62 Pa. 353.

[4] Cole v. Penn. R. R. Co., 43 F. 2d 958 (1930), 71 ALR 1096.

[5] General Mills v. Goldman, 184 F. 2d 359 (1950).

[6] Erie R. R. Co. v. Tompkins, 304 U.S. 64 (1938).

[7] WAIVER OF SUBROGATION—No clause which grants permission to waive the insured's rights of recovery after the occurrence of a loss shall be used.

Where it is desired to use a waiver of subrogation clause, the following is recommended:

"Waiver of Subrogation—It is hereby stipulated that this insurance shall not be invalidated should the insured waive in writing prior to a loss any or all right of recovery against any party for loss occurring to the property described herein or affected thereby."

(Page 9-A, "Standards" of the Georgia Guide for Construction, Equipment and Occupancy, published by S.E.U.A.)

(Actually this is an agreement not to withhold part of the insurance on account of the insured's agreement in advance not to sue the lessee for negligence causing a fire.)

be applied to reduce the tenant's liability to the owner.

How to accomplish this, I submit, is a provision in the lease by which the landlord agrees that the proceeds of his fire policies will be applied in reduction of the tenant's liability for a loss caused by the tenant's negligence and arising out of one of the perils insured against. Such an agreement is covered by the "Waiver of Subrogation" indorsement.

In the General Mills case a building agreed to be worth $142,500, and insured for $100,000, was destroyed by fire. The owner collected the $100,000 insurance but was forced to bear the additional $42,500 loss, even though the fire resulted from the tenant's negligence. Because the tenant, General Mills, occupied the entire building, its operations determined the fire rate. Hence, one cannot quarrel too much with the court's giving General Mills the benefit of the owner's fire insurance.

It does not seem equitable, however, in the absence of a clear agreement, to compel the owner to bear the uninsured portion of any fire loss caused by the tenant's negligence. Under the suggested solution, written into the lease, General Mills would have had the benefit of the $100,000 fire insurance but would have had to reimburse the owner for the $42,500 uninsured loss.

Problems of Multiple Occupancy

Multiple occupancy buildings, apartment houses, office buildings and loft buildings, present more difficult problems. The rate for fire insurance on such a building is not determined by the operations of any one tenant. Moreover, the landlord remains in control of much of the building, common hallways, stairways and elevators, and usually undertakes to provide heat, and often electric light power and other services. Unless his leases exempt him from liability for loss caused by his negligence,[8] the landlord has a substantial fire legal liability hazard against which he should carry insurance.

Vice versa, a tenant in a multiple-occupancy building is in control of only that part of the building leased to him. If by his carelessness he causes a fire, he is liable to the

(Continued on following page)

[8] In some states a clause in a lease exempting the landlord from liability for injury or damage caused by his negligence is void as against public policy. New York has a statute declaring such clauses in leases to be void. See McKinney's Consolidated Laws of New York, Book 49, Real Property Laws 234.

owner for the resultant damage to any part of the building and to other tenants. In such a situation smoke and water damage to property of other tenants may be substantial. Only a careful analysis of each client's business operations, leases and other contractual arrangements will disclose whether, in the exercise of sound business judgment, he should buy fire legal liability insurance, and if so, how much.

Because fire legal liability is but a part of the broader field of property damage liability, it is doubtful that the development of multiple line underwriting will specially affect fire legal liability coverages. It will continue to be provided, in special cases, in connection with fire coverages, but more commonly with property damage liability coverages.

The businessman's risk of loss by fire may be divided into three parts: (1) loss of his own property; (2) loss of property of others for which by contract he is responsible; and (3) his legal liability for damage by fire to property of others.

Examination of his contracts, including leases, and of his methods of doing business, often reveals that he has assumed responsibility beyond his legal liability for damage by fire to property of others not occupied or used by or rented to him or in his care, custody or control. The important question is whether he has enough coverage to take care of the probable loss resulting from damage to such property from a fire caused by his negligence or the negligence of his employees, or from other hazards.

The insurer can make use of the insured's general liability policy to take care of his contractually assumed liability as well as his legal liability for damage by fire to real property occupied by or rented to him. First, if that policy does not give the contractual liability coverage written into the standard comprehensive liability policy, such coverage must be added by appropriate indorsement. Next, the policy exclusion relating to "property owned," occupied or used by or rented to the insured, or . . . in the care, custody or control of the insured must be so amended as to limit its application to personal property. The coverage so extended must, by clear language, be limited to damage by accidental fire, and other named hazards,[9] to designated real property. If he may need a large limit of liability against liability for loss by fire to the premises he uses in his business, while he needs, or wishes, a different limit for his legal liability for other property damage, the indorsement will carry a dollar limit of liability applying only to the coverage given by the indorsement.

It is clear that there will be increasing demands from companies in industry and business for property damage liability coverage, including fire legal liability coverage, with high limits, often in excess of one million dollars and occasionally as much as five million or more.

The Joint Forms Committee of the Mutual Insurance Rating Bureau and the National Bureau of Casualty Underwriters has promulgated two indorsements for use with the comprehensive personal liability policy in giving fire legal liability coverage for damage to premises and furnishings used by, rented to or in the care, custody and control of the insured. Neither will fit every such situation, but they do show the sound approach to solution of the problem of providing coverage for that particular hazard by the use of a general liability policy.

[9] Usually explosion, smoke and smudge, but where advisable loss from other selected hazards may be covered.

SUPERMARKETS

(Continued from page 17)

should be closely followed as to fire walls, clearance from heating devices, incinerator construction and electrical equipment. The National Board of Fire Underwriters, in cooperation with the Board of Fire Underwriters of the Pacific and the Pacific Fire Rating Bureau, has prepared an excellent and exhaustive report on "The Supermarket Hazards and Protection" which can be obtained on request.

Possibly one of the easiest methods to check certain deficient conditions is to develop a simple inspection blank. In addition to housekeeping and maintenance conditions, such items as fire extinguisher conditions, fire door operations, and sealing iron arrangements, may be noted at the same time and reported to the manager or to the central management if there are several stores. As important as these reports should be to the store or central management, their vital contribution is a *practical educational value* which can be imparted to the employees and often to the store manager himself.

Proper fire prevention precautions are matched in importance by a realistic and adequate insurance protection program. To the credit man this may mean the difference between financial life and death for him or his debtors. Although insurance cannot provide protection against every conceivable loss, a proper insurance program should have the prime requisite of *providing adequate coverage against those losses which could result in a financial catastrophe for the insured.*

Protection against fire, and extended coverage against whatever other insurable perils are present—for example, sprinkler leakage—are almost mandatory.

From a coverage standpoint, the supermarket and similar operations do not present unusual or particularly difficult problems. For an owner-occupied building, certainly an adequate amount of building insurance based upon a competent appraisal is a "Must."

The contents—stock, furniture and fixtures, and improvements (if tenant-occupied)—may usually be best protected by a combination of a monthly reporting form policy and non-reporting socalled specific insurance, thereby providing adequate coverage for the high values without requiring a premium for unneeded insurance when inventory is down—*neither under-insurance nor over-insurance.* With the many recent

Why insurance pays

total losses, under-insurance should be a constant source of concern.

A new plan for multiple location rating, for which the eligibility requirements are two locations and $500 annual premium per account, has been devised and may be utilized in most states to provide satisfactory contents coverage at the lowest possible cost.

Protection of Earnings Is Vital

An adequate amount of business interruption insurance—properly written both as to form and coinsurance—is an integral part of complete coverage—just as important and possibly even more so from a dollar standpoint than the building and contents insurance. *An insured does not have a proper insurance program if he permits this source of possibly catastrophic loss to remain unprotected.*

While business interruption insurance may be written in various forms, it is felt in most states that the socalled Gross Earnings Form, with a proper choice of coinsurance percentage, should provide adequate protection at the most equitable cost. However, it is essential that the supermarket owner or operator consult his agent or broker for careful analysis of his particular situation to determine if this form and the amount are a proper choice. Seasonal fluctuations, abnormally large "ordinary payroll," length of time necessary to replace the building or acquire an equally desirabe location, are all factors.

Frequent Review of Coverage

Possibly one of the most neglected and least understood factors is that business interruption insurance is concerned with *future earnings.* Since any loss payment would be made on this basis, as in the coinsurance requirement, the amount of insurance should be carefully weighed, with possibly an additional amount provided as a safety factor. In addition, this coverage should be reviewed periodically, certainly not less than once a year and possibly even more frequently, depending upon the growth of the business.

Owners or operators of more than one store should give serious consideration to blanket business interruption insurance over all locations, thereby providing complete earnings protection under a single policy. This is especially vital if there are any interdependent operations.

Other Kinds of Coverage Essential

Property damage and earnings protection is by no means the only coverage essential to the supermarket operator. Leasehold interest insurance, providing protection against financial loss from the cancellation of a favorable lease due to damage by the insured perils, transportation insurance to protect the frequently high-valued shipments either by truck or rail, specific insurance on large valued signs, are all other coverages which may be supplied by the fire insurance industry and should be considered. In addition are the numerous casualty coverages, oftentimes of equal importance.

Discussion with various leaders in the supermarket industry proves both the industry and the management of individually owned stores are genuinely interested in proper fire prevention and insurance programming. However, much remains to be done to promote more satisfactory conditions. There is no better way than sincere cooperation among the three members of the equilateral insurance triangle—the buyers, the agents, and the companies. As insurance buyers for their company's operations, or as necessarily interested analysts of a credit applicant's insurance program, credit men are in an enviable position to help right the wrongs from inadequate insurance.

"Doc" Jansman Featured

When Dr. Edward B. Jansman, businessman at Huntington, W. Va., recently retired at 68, his services to the community were the subject of a feature attention in the Huntington *Advertiser*. Member of the Huntington Association of Credit Men, chairman of Community Chest campaigns, head of the Fairfield Stadium Fund committee, and benefactor of a number of Marshall College athletes, Dr. Jansman has been a civic leader for years. Graduate of Cincinnati Veterinary College, he went to Huntington on appointment by Governor Hatfield as consulting veterinarian. In 1918 he purchased the Farmer's dry cleaning establishment.

Insurance and Credit Ride Together; The Stakes Are Business Solvency

By R. S. BASS, Treasurer
A. E. Staley Manufacturing Company
Decatur, Illinois

TO THE MAN who has been delegated the responsibility of maintaining an adequate insurance program, the interdependence of insurance and credit is synonymous with business solvency; and business solvency in the event of disaster is exactly what an adequate insurance program must provide. Times change rapidly, and your ability to interpret the current financial condition of your customers may spell the difference between profit and loss. A sound credit and insurance program requires knowing whether your customers' business hazards are adequately insured.

R. S. BASS

One of the first steps to determine the amount of credit you can extend to a customer after checking the Credit Association and Dun & Bradstreet reports is examination of the assets listed in a current financial statement of that customer. In the event of a casualty, how many assets would be protected by insurance?

Cash is the first item listed. While there are no accurate published statistics on the total embezzled or stolen by employees, the estimate has been that it exceeds $400,000,000 a year. In some instances the total thefts from a firm have been so large that bankruptcy has resulted.

There are several policy forms available, such as individual, schedule, primary commercial blanket, blanket protection, comprehensive crime, and comprehensive "Three-D."

I recommend the coverage afforded by the so-called Three-D policy, which is certainly broad and generally includes the following types:

1. **Dishonesty of employees.**
2. **Burglary of merchandise.**
3. **Theft of merchandise.**
4. **Safe burglary.**
5. **Inside robbery.**
6. **Outside robbery.**
7. **Paymaster robbery.**
8. **Destruction of or damage to money and securities.**
9. **Money orders and counterfeit paper currency.**
10. **Forgery of issued instruments.**
11. **Forgery of accepted instruments.**

Excess coverage can be provided on certain designated persons or positions. Some companies will issue an indorsement to cover agents, brokers, and warehousemen.

Trade accounts receivable are another asset which can be protected to a certain extent by insurance, thus serving a dual purpose: protection of our prospective customer, and protection of our own accounts receivable records. These records represent not only considerable diligence on the part of you and your staff but also assets owed your company by its customers. Credit is the American way of transacting business, and payment is effected upon receipt of an invoice or statement. Policies available insure against actual loss sustained through inability to effect collection of unpaid balances or accounts as a direct result of loss or damage to your accounts receivable records.

A large amount of money is invested in inventory, consisting of finished products, raw materials in process and to be processed into product, and sundry supplies. The generally accepted coverage for this asset is based on damage by fire, explosion, water, riot, windstorm, etc. Our interest in this type of coverage also extends to protection of buildings, machinery and fixtures.

The larger industrial companies generally are well insured for the hazards they consider too great a risk to underwrite themselves. Many small and medium-sized companies, however, are seriously under-insured, and thus invite bankruptcy in case of a catastrophe.

A survey published by the Bankers Information Bureau of Kemper Insurance, entitled "Under-Insurance in American Industry," included analysis of 100 plants with total assets ranging from $50,000 to $3,000,000, and annual sales ranging from $40,000 to $1,350,000.

Some of the rather astounding results of the survey follow:

(1) Plants having up-to-date appraisals—2%

(2) Plants having out-of-date appraisals—20%

(3) For fire insurance:

(a) Plants under-insured—56 per cent

(b) Amount of loss recoverable in event of partial plant destruction—14 to 86%

(c) Average amount of loss recoverable in event of partial plant destruction—52%

(d) Extended coverage; indorsement attached to fire policies—49%

It isn't difficult to believe the report that 43%—nearly half—of all firms suffering serious fire losses never reopen after a serious fire loss.

Our problem, then, is to determine if the coverage is sufficient. Ascertaining the size of the exposure is not too great a problem. Physical values can be determined with sufficient accuracy with intermittent ap-

"Another hazard which can seriously affect the assets of a company arises from claims by third parties (or non-employees) for damages or injuries out of company operations or from the use of a company product. Large uninsured claims in this field have forced business concerns into bankruptcy. Protection against this hazard is afforded by public liability insurance. Automobile liability and products liability should be included in this category, as well as general liability insurance."

—R. S. BASS

From an address by Mr. Bass before the St. Louis Association of Credit Men.

TREASURER of A. E. Staley Manufacturing Company, Decatur, Ill., R. S. Bass serves on various boards of directors and national and state committees on insurance and taxes. He has been on the board of managers of James Millikin University since 1944, vice president since 1945, is past vice president heading the insurance division of American Management Association, and past director; also past director of the Risk Research Institute, New York City, and the Mid-West Insurance Buyers Association.

Mr. Bass in 1950 became incorporating director and first vice president of the National Insurance Buyers Association, Inc.

praisals and annual revision. Business indexes, as published in the Federal Reserve Monthly Bulletins, provide a means of checking values for the interim between appraisal revisions. You are familiar with fire co-insurance, where, in exchange for a lower fire insurance rate, the assured agrees to buy and maintain an amount of insurance equal to 80% or 90% of the value of his plant. Existence of the coinsurance clause in our customer's fire insurance should assure us that (1) an accurate valuation of his property was made to comply with the coinsurance requirements, and (2) this valuation is reviewed periodically to maintain its validity.

Penalty for Under-Valuation

In policies subject to coinsurance, under-valuation of assets will result in a coinsurance penalty. The amount of insurance carried should be slightly higher than the present-day value. This will provide a coinsurance safety factor well worthwhile in this period of increasing costs.

A businessman was carrying $40,000 of fire insurance on his plant. At the suggestion of the makers of the survey previously mentioned he had an appraisal made that cost him $350. It revealed that the current value of his plant was $102,000, so he immediately increased his fire insurance to $82,000 to meet coinsurance requirements. A fire caused $47,000 damage. Under his former coverage, because of coinsurance requirements, he could have collected only $18,430 and would have had to pay the remaining $28,570. Under his new policy he collected the full $47,000. This businessman spent $350 for an appraisal that saved him more than $28,000.

Vandalism and malicious mischief coverage, written under the broad Form B, became quite popular a dozen years ago. A large amount was written at three cents per $100 per annum and later reduced to 1.6 cents. Much to the surprise and pleasure of the insurance companies, the losses were extremely small. Although the degree of hazard was smaller after the Second World War, the insurance companies recognized a definite peace-time need for this type of coverage. About Jan. 1, 1950, the insurance companies made the coverage available as a part of the extended coverage indorsement, and the rate of 1.6 cents per $100 was reduced by the stock fire companies to one mill. I understand that the associated mutuals now provide this coverage, under their extended coverage indorsement, without any additional charge.

Boiler and machinery coverage is vital to most manufacturing plants. The survey indicates about 90% of the plants do have boiler coverage, although only 9% of this group have adequate limits. As for machinery breakdown, only 15% of the plants surveyed carry this type. The desire to operate plants at capacity under the business conditions of the last few years, with continuous use and perhaps insufficient maintenance of equipment, has increased boiler and machinery losses.

A simple and comprehensive boiler and machinery policy form should specify: "All boilers, pressure and vacuum containers, piping, appliances, valves and fittings connected thereto or operated therewith are insured against accidents," and "all rotating, reciprocating and electrical machinery and electrical equipment are insured against accident." This coverage, applied with a judicious use of the deductible clause, would provide the complete inspection desirable and the loss payments necessary.

Business Interruption Insurance

The companion coverage to "fire and extended coverage property damage and to boiler and machinery property damage is business interruption insurance (also called use and occupancy insurance). This covers net profits, fixed charges and expenses during a period of disaster, and enables a business to maintain the same relative financial position during a period of restoration as it had prior to the loss.

(Concluded on following page)

THE STAKES: SOLVENCY

(Concluded from page 29)

Many businessmen seem to have difficulty understanding the need for this form of insurance. They know the "why" of fire insurance because they have seen fires, smelled smoke, seen firemen in operation. They know the physical damage a fire can do. The difficulty comes in realizing that a business interruption loss can, and often does, exceed actual property damage.

In a study of several hundred 1951 fire losses, 30% of the losses under $5,000 had business interruption loss exceeding the property damage loss. In 38% of the losses over $5,000 the business interruption loss was greater than the property damage loss.

The hard fact is that even with fire and extended coverage insurance carried to cover the full value of property, a serious fire can leave a company without means to continue its business.

Statistics show that 99% of firms carrying business interruption insurance and suffering serious fire losses have rebuilt their plants and continued operations. Business interruption coverage properly has been called the life, health and accident insurance of business.

A collection problem is made infinitely easier when business interruption insurance is available after a serious fire or boiler and machinery catastrophe.

Another hazard which can seriously affect the assets of a company arises from claims by third parties (or non-employees) for damages or injuries out of company operations or from the use of a company product. Large uninsured claims in this field have forced business concerns into bankruptcy. Protection against this hazard is afforded by public liability insurance. Automobile liability and products liability should be included in this category, as well as general liability insurance.

Again some statistics from the survey "Under-Insurance in American Industry," with regard to liability insurance coverage:

1. **For General Public Liability Insurance**
   - **(a) Plants not carrying this coverage—10%**
   - **(b) Plants carrying comprehensive form of policy—11%**
   - **(c) Plants carrying property damage coverage—15%**
   - **(d) Plants carrying adequate bodily injury limits ($100,-000/300,000 or more)—14%**
   - **(e) Plants carrying adequate property damage coverage —None**
2. **For Automobile Insurance**
   - **(a) Bodily Injury and Property Damage**
     - **(1) Plants carrying adequate limits ($100,-000/200,000)—6%**
     - **(2) Plants carrying comprehensive form of coverage—2%**
   - **(b) Physical Damage**
     - **(1) Plants not carrying coverage—14%**
     - **(2) Plants carrying comprehensive form of coverage—12%**

A plan generally accepted as adequate is to cover legal public liability to non-employees with a limit of $100,000 per bodily injury claim, $1,000,000 for all bodily injury claims arising out of one accident and $3,000,000 aggregate as to product claims. A property damage legal liability limit of $500,000 an accident and $3,000,000 aggregate for exposure is desirable. Automobile legal liability to cover non-employees' claims arising out of the operation of automotive equipment for industry should carry limits of $100/300,000 for bodily injury and $100,000 for property damage.

Due consideration also should be given to the fact that in recent months several freak automobile accidents reported in newspaper and trade magazines had resultant losses in fantastic amounts. For instance, a crash between a truck and a passenger car in Pennsylvania, which brought death to three persons and permanent injuries to two others, produced court actions calling for $2,000,000 damages. In a railroad crossing wreck, a truck caused considerable damage to the train. The claims paid for both property damage and bodily injury were very high.

Some companies having many heavy tank trucks now carry bodily injury limits of $250,000/1,000,000 and property damage limits of $500,000.

Life insurance may be used to protect business solvency of a small organization. The effect of the death of an owner or principal partner in a partnership or close corporation may be disastrous. The protection afforded by life insurance on a key individual is a "Must" with many small businesses.

Our analysis of the balance sheet and supplemental information has been concerned with the type and amount of insurance coverage needed. The question presenting itself now is: "How good is the underwriting company (or companies) used by our client?"

Do we have to insure our insurance? Actually, proper analysis of the financial report must consider the stability of the underwriter. We are interested in these factors:

(1) Ability of the company to pay a claim, or how much money it has immediately available;

(2) Experience the company is undergoing in regard to claims and losses (or are losses in excess of premium income?);

(3) Background or financial groundwork, especially with regard to investment of assets;

(4) Diversification of business undertaken by the company, or how well is the liability of the company distributed in terms of the type and location of insurance in force.

In summarization, the credit man must evaluate the insurance program of a business in terms of replacement of the entire physical structure, plus the guaranty of earnings in the event of a casualty.

Nearly every man wants his wife to have her own opinions. He just doesn't want to hear them.
—Changing Times

12 Keys to Lock Out Check Forgers
Who Cost Public $400 Millions a Year

THAT "baker's dozen" of yester-year is unknown to today's younger generation but the older folk remember it. There's a parallel thirteenth item as a bonus for the prudent credit and treasury staff members—personally and as company representatives—who follow 12 suggestions offered by George W. Adlam, check detective of the Todd Company, check manufacturers of Rochester, N.Y.

G. W. ADLAM

Mr. Adlam, out of his 30 years tracking down fraudulent operators, presents these simple rules for check cashing, as clues on how to avoid becoming one of the victims of forgers who cost the American public $400 millions last year and apparently will reap an even larger "take" this year.

As actual checks are "the raw material" of swindlers' operations, keep bank checks under lock and key, Mr. Adlam advises. Destroy small checks, never sign blank checks, and safeguard your bank statements and canceled checks, because "they show how much you have in the bank, how you draw your checks, how your signature looks," and "your bank statement is perfect identification"—for the crook.

Here are Mr. Adlam's "do's" and "don'ts":

(1) Don't hesitate to ask questions and don't let the check passer rush you.

(2) Auto licenses and social security cards are not sufficient positive identification. (A forger arrested at Buffalo, N.Y. had 14 driver's permits, all forged, and 16 bogus social security cards.)

(3) Don't cash checks that show signs of alteration. (If you've cashed a raised check, you cannot recover more than the original amount.)

(4) Insist that the check be indorsed in your presence. Then make certain the indorsement agrees with the payee name on the face of the check.

(5) Investigate if you are asked to cash a check outside business hours or on Sunday. (These are the favorite hunting times of crooks.)

(6) Beware of out-of-town checks unless you are satisfied as to presenter's identity and character and the check's validity.

(7) Be certain the check is that of an existing concern and is drawn on an actual bank.

(8) Use as much care in cashing what appears to be a bank cashier's or certified check as you do on a personal check.

(9) Beware the customer who offers a check for a considerably larger amount than that of the purchase. (The purchase often is a trick to get the cash).

(10) Never indorse a check unless the person is well-known to you as responsible.

(11) Don't cash rubber-stamp signature checks, or checks presented by juveniles. (They're not legally responsible, and may be runners for crooks).

(12) Phone the bank if a bank book is offered as identification.

Never make out checks to "cash" or "bearer." Start writing at the extreme left of amount lines and draw lines through blank space to the right. Avoid handwriting flourishes. "Forgers have more problems with simple, straightforward signatures, in which errors are more easily detected." Another point: "A distinctive signature reserved for signing checks and financial documents makes it harder for a forger to obtain a sample signature."

Always use pen and ink or a check-writing machine, says Mr. Adlam. He notes that Todd's Protectograph, for example, macerates the amount into the paper fibers in indelible ink and so cannot be altered or removed. Swindlers cut their eyeteeth on checks written in pencil.

Insurance Advice Essential In Assistance to Customer

(C. A. Maguire's comment, concluded from page 11)

During World War II heavier inventories were carried. Then inflation began to show its effect, and refrigerated showcases became a necessity, so that the smallest store had a sizable investment of at least $10,000. As a result credit lines were greater and the fourth "C"—Coverage—became a "must" in granting credit lines.

As a practical approach to the new insurance problem we decided to change our credit application form. Instead of the old question, "Is insurance carried?" we asked specific questions, "Amount of fire insurance and name of company," also "Amount of life insurance and name of company."

We scrutinized the larger old accounts. Where we felt they were under-insured we made a friendly call or asked our salesmen to bring the matter to our customers' attention.

Tact Required in Discussing Insurance

In our line of business a salesman is the direct representative of the house, so we must rely on our sales force for the personal touch and contact. As most persons object to being told what they should do, it is essential that our salesmen be diplomatic and know how to discuss insurance problems with every type of customer.

When a new customer visits our office to establish a line of credit, or an old customer to obtain a larger line, we always offer advice on adequate insurance. Some have to be convinced that the premiums are inexpensive for the risk involved.

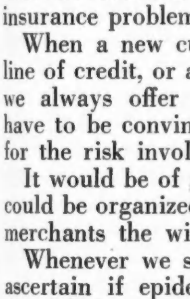
It would be of great benefit if an educational program could be organized to bring to the attention of retail food merchants the wisdom of complete insurance coverage.

Whenever we sell children's camps we are careful to ascertain if epidemic insurance is carried. In the last decade I have seen several such camps go out of business because an outbreak of polio or a similar hazard had not been provided against in the insurance program.

Buyer's Continuous Operation Secret of Supplier's Success

Ross J. Ulman, *Vice President, Tootle Dry Goods Company, Omaha, Nebraska*

THE 104-YEAR experience of our company has demonstrated that our maximum success depends upon uninterrupted and successful operations of our customers.



R. J. ULMAN

In our concept of adequate insurance, fire coverage is the oldest and with extended coverages, coinsurance and business interruption insurance, is one of the most important, particularly today with the inflated costs of property, fixtures and merchandise.

It is well to check the list of extended coverage. There is no such thing as a fireproof structure, and in recent years the loss by interruption frequently has exceeded the physical loss incurred because of the disaster.

In liability cases, damage to physical property can be disastrous; however, it is limited to the value of the property, whereas liability costs for injuries to the public or employees are unpredictable.

Workmen's compensation insurance covering employees in all states in which they operate is now a "Must." The law permits no defense for negligence of the employee. It also provides unlimited medical expense plus benefits in many states.

Public liability insurance must be had in very large amounts. Juries are awarding damages in very high amounts. Adequate limits for coverage vary according to exposures. A passenger elevator represents extra risk.

Automobile liability insurance is demanding more and special attention, both for business and personal protection. For the average business a non-ownership policy is very desirable. Where a business owns a fleet of cars or trucks, it is best to consult competent agents.

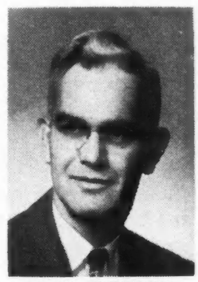
These forms of insurance are essential to all business houses, and in general will provide maximum insurance protection to the average business.

In all classes of liability insurance it is desirable to keep it in one place year after year, as good experience will produce a favorable rate and it is entirely probable to go for years without any loss and then have a year of several losses and an unfavorable record. In such situations the total years will be the factor governing rates and determining if the insurer will continue to handle the risk.

What Are the Real Values Purported to be Covered?

D. W. Gordon, *General Manager, Gleason & Company, Emeryville, California*

IT IS NOT enough for us to know that the customer has insurance in force. The important question is: What are the real values purported to be covered? Too little attention has been given this problem by credit managers and accountants. Rare, indeed, is the audit report that fully analyzes this important factor. It is true that the American Institute of Accountants and the National Association of Credit Men have been urging their members to a more complete analysis of insurance coverage as a standard audit procedure.



D. W. GORDON

The most routine credit check should incorporate questions to reveal the extent of insurance coverage as an indication of what might happen in total loss by fire or other hazard.

The basic coverage is fire insurance with extended coverage on buildings, equipment and merchandise inventory. This is where we should start our digging to find out if the coverage is adequate.

In the last five years commercial and industrial building costs have risen 15 to 20 per cent. Obviously a policy written prior to this period, on the basis of original cost, will not replace a totally destroyed building without the use of additional funds. Too often this means either the increase of long term indebtedness or impairment of working capital. Too many other factors in business today are chipping away at the capital structures of most businesses.

No Alibi for Under-Insurance

There is no excuse for under-insurance of buildings. The fire insurance companies will make free appraisals annually if requested.

Because of the special nature of most industrial equipment, insurance companies are not equipped to supply

appraisers of current values for this work—and the increase in replacement cost of equipment is greater than for any other insurable item.

There are firms which will make appraisals on a fee basis, and most certainly this fee would be well spent if disaster should strike. One method used in the absence of an appraisal is to apply the ratio of the increased cost of a piece of machinery to an older, comparable unit, and then increase the insured value of all equipment on the same ratio. This is a rough rule-of-thumb but better than none. Companies having engineering departments should make periodic studies. Of total damage claims to structures and equipment by fire in the last year, 50 per cent were found under-insured.

Insurance coverage on inventories is subject to careless reporting. As the premium paid is based only on the amount of insurance used, the report of values should be made as promptly as possible after the end of the month.

This report should be compared with the provisional limits stated in the policy and the coverage increased immediately if necessary. Although a 30-day period of grace is allowed, the almost unbelievable statistics show that one out of three total loss settlements on this type of risk is under-insured!

Constant alertness to the insurance problem cannot be too greatly emphasized. The case of a company we shall call the XYZ Corporation is not unusual.

Sales Drop, Deliveries Jump—Then Fire

The normal inventories never had exceeded $58,000. A policy was written using this amount as a basis for the deposit premium. In January an unseasonal slump in sales coupled with unexpectedly accelerated deliveries from their major supplier filled their warehouse with an unprecedented inventory, later determined to be $79,000. On February 27th a fire totally destroyed building and contents. Settlement was made on a November 30th report of $51,000. An accounting clerk had not thought this monthly report important. The building, originally constructed in 1937, was insured for its original cost and no appraisal had been made in 15 years! This small corporation never did recover.

It is not unusual for a mercantile risk to insure inventories at the selling price, rather than cost values, in reality a combination of inventory and business interruption insurance. This new approach has merit and bears study for use in retail operations.

Beyond what I have called basic coverage, we credit men should concern ourselves with other insurable risks, most importantly business interruption insurance.

Properly written, the policy is tailored to the needs of the insured and the special nature of the business. In this complex field I cannot recommend too highly a recent publication, "Business Interruption Insurance Coverage and Adjustment," by K. W. Withers. Needed is careful analysis to provide that lost profits are recovered, key personnel retained, fixed costs paid.

Thought must be given to the hazard peculiar to the sole proprietorship, partnership, and closely held small corporation in the event of death of owner, partner, or principal officer.

The small increase in premium for coverage at the upper limits of personal property, public liability, products liability, etc., has led many a small firm into a "penny wise—dollar foolish" attitude toward insurance expense.

Credit men should take counsel with the insurance broker as one would with another creditor. Annual reports and ledger interchanges could well be supplemented by a revealing insurance questionnaire.

Insurance Credit Checking Calls for Complete Replies

L. W. McBride, *Assistant Secretary-Treasurer, Wagner Electric Corporation, St. Louis, Missouri*

THOUGH there is no sure way for the businessman to protect himself against such major hazards as lack of capacity or training, lack of capital, unusual competitive conditions and subnormal economic conditions, there are many lesser hazards such as fire, windstorm, explosion, business interruption, dishonesty of employees, liability claims, which can and should be guarded against by proper insurance coverage at rather nominal cost.


L. W. McBRIDE

The progressive credit manager should not excuse himself for failures of customers from these causes, as they can be prevented by a proper routine of insurance credit checking. This is particularly necessary today when many insureds have failed to step up their coverages to keep pace with inflated values and claims.

Most of us have been content to ask only general questions regarding insurance coverages on our credit application and financial statement forms and to accept even more indefinite replies. This practice is inadequate today. While we all are reluctant to pry more information out of customers and prospects, I feel we cannot be content with less than full replies to the questions in the boxed form herewith:

INSURANCE

(1) FIRE
Amount carried on buildings $.................. Date expires ....
Amount carried on contents $.................. Date expires ....
Do policies carry "extended coverage" indorsement? Yes......... No.........
If not, what windstorm coverage is carried?
$.................. Date expires ....
Amount of business interruption
$.................. Date expires ....

(2) BOILER AND MACHINERY EXPLOSION
Amount of direct damage $.................. Date expires ....
Amount of business interruption
$.................. Date expires ....

(3) LIABILITY
Do you carry workmen's compensation? Yes .... No ....
If so, date expires ....
If not, employers' liability carried
$.................. Date expires ....
Public liability carried $..................—one person;
$..................—one accident. Date expires ....
Is bodily injury and property damage liability insurance carried on all vehicles owned or used by or for the firm? Yes .... No..........
If so, what limits?
$.................. B.I. one person;
$.................. B.I. one accident;
$.................. P.D. one accident. Date expires ....

(4) CRIME
Are all employees with access to cash, bank account, accounts receivable or inventory bonded? Yes .... No ....
If so, what limits?
$.................. one person
$.................. total Date expires ....
Burglary insurance carried $.................. Date expires ....

The very act of answering the questions will call the attention of a business owner to his insurance deficiencies. For the calloused individuals who indicate a lack of proper coverage, a few words of good advice from the credit manager of a major supplier usually will bring the desired results.

Since a large portion of all commercial credit is extended on the basis of reports issued by the National Association of Credit Men or other credit groups or commercial agencies, there is an educational job to be done by the credit fraternity and by the insurance field to make the insurance questionnaire of credit applications and financial statements more comprehensive, and to include full data in all published reports.

How a Credit Man Can Build Own Stature, Help Company

N. A. CLOUET, *Treasurer, Sargent & Company, New Haven, Connecticut*

BECAUSE it is a common failing of individuals to procrastinate on periodic review of insurance coverages, the credit executive can build up his stature and his contribution to company and customers by first familiarizing himself with the types of insurance coverages available and by obtaining a record of a customer's insurance protection.

N. A. CLOUET

Then the executive can determine the amount of credit accommodation to be extended, discuss insurance for the best interests of his customers, and point out potential business-wrecking hazards.

As a preliminary step the credit executive might review the following rather fundamental types of insurance.

Fire is the least frequent but most costly hazard a businessman has to take into account; therefore, there should be adequate comprehensive insurance against fire, extended at moderate extra cost to cover such infrequent hazards as windstorm, earthquake, tornado. The most important and most frequently overlooked adjunct is business interruption insurance. Most business managers know that this added protection in many fire cases means the difference between winding up a business and starting up again without untoward loss of time and money.

So long as businessmen employ other persons, or the public enters the property in the conduct of business, there is need for fidelity and liability insurance.

The most complete and least expensive protection can be provided by a comprehensive liability policy, tailor made to cover all public liabilities, including product liability and elevator and boiler explosion injuries to other than employees. This policy should be written to include automobiles owned or rented, independent contractors on one's premises, assumed liabilities under sales contracts and other agreements. If properly written, this would pass along all liability claims headaches to the insuring company. A comprehensive bond would take care of all fidelity, forgery, and miscellaneous inside and outside robbery and safe burglary, at one location or in several branch locations.

If a business is large enough, it should consider transit insurance. Goods in transit may be outgoing merchandise consigned to customers or incoming materials, equipment, machinery, or supplies.

Excess Compensation Insurance

If a business has a substantial payroll, consideration should be given to the applicable workmen's compensation laws. Many companies will be willing and able to assume liability for injuries to its employees up to a limit. It would seem wise to carry excess workmen's compensation insurance, so that large losses may not seriously affect the financial ability of a business to continue its affairs. Such an excess policy should be written to include medical, surgical, hospital or nursing expenses, as well as death benefits. A good insurance company would offer a loss control program through safety engineering.

If a business owns its own buildings, it should be borne in mind that the fire policies do not cover damage to or by boilers, compressed air or electrical equipment. Therefore, such hazards would be insured against through specific policies. Business interruption insurance, auxiliary to a fire policy, would not cover the loss of profits caused by the explosion of boilers or destruction of electric transformers or like equipment. The coverage would be obtained by extension of a boiler and machinery insurance policy.

A minor hazard in retail business has to do with damage to plate glass show windows. Insurance on such objects would have to be considered in the light of possible losses.

Very important would be an analysis of the manpower operating a business or playing a major role in its administration, and the effect the death of one person likely would have on the business enterprise. It is very often good business to insure the key personnel in favor of their company, for orderly continuity of the business in case of death.

It may well be that a credit executive, merely by stimulating thought, would save a good company which otherwise might be wrecked because of failure to provide protection against hazards.

Know Proper Coverage, Then See That Customers Have It

ARTHUR REESE, *Divisional Credit Manager, W. P. Fuller & Company, Los Angeles, California*

PROPER INSURANCE protection is available against those perils that so often beset business, and the well informed credit executive takes steps in two directions. First, he becomes familiar with his customer's business to the extent of knowing what insurance protection should be carried. Secondly, he insists that his customer carry the protection.

ARTHUR REESE

Insurance can be a difficult, complex subject, and the services of a good agent or broker are of real value. There are many forms of insurance, however, with which the credit man should become familiar.

Reviewing your customer's insurance program, it may simplify the problem to consider that from the credit executive's point of view all insurance can be roughly divided into the following three categories:

(1) Liability insurance of all kinds, including workmen's compensation or employers liability insurance.

(2) Property Insurance. Obviously, the kinds of insurance on property are almost unlimited and it is practically impossible to be insured for every contingency. Therefore, it is necessary to decide which are the most important.

(3) Loss of Income Insurance.

With these three categories ever in mind, the following so-called "basic coverages" should receive positive attention from the credit executive.

Workmen's Compensation

Workmen's compensation and certain other coverages are required by the laws of the various states, and severe penalties are imposed for failure to comply.

Public Liability and Property Damage Insurance

In this age of high awards by the courts, adequate public liability and property damage insurance is most

vital. The credit man should look askance at any policy that doesn't meet the following requirements: (1) A comprehensive form; (2) Adequate limits of liability; (3) A strong insurance company to back up the policy.

Fire and Extended Coverage Insurance

This class of insurance is generally carried by all businesses. There are, however, several points that must be checked carefully to make certain the insurance will be valid in the event of loss. Does the policy have a proper loss payable clause? Is the insured complying with the coinsurance requirements? If the policy is a reporting form, is the insured making his reports promptly? Is the amount of insurance adequate?

Theft Insurance

Insurance to protect the client against loss of money, securities or merchandise caused by theft by employees or others, should be carried in adequate amounts.

Business Interruption Insurance

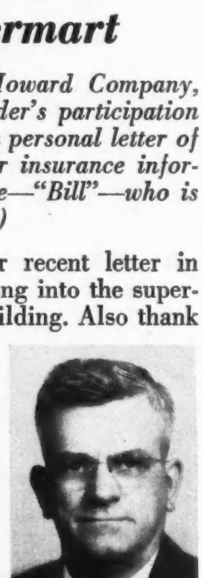
Business interruption insurance pays the insured's continuing expenses plus his profit during discontinuance of operations, forced by the catastrophe insured against. As there are various forms of this insurance, the service of an expert insurance man is desirable. The value of this type of insurance cannot be overemphasized.

The mentioned types of insurance by no means cover the field of interest to the credit executive. He must be ever alert for the usual, as well as the unusual, hazards that should be covered.

Here's Mythical Letter to Friend Opening Supermart

R. A. YODER, *Auditor, Thomas & Howard Company, Charlotte, North Carolina. (Mr. Yoder's participation in the symposium is in the form of a personal letter of suggestions in reply to a request for insurance information from a business acquaintance—"Bill"—who is entering the supermarket field.—Ed.)*

THANK YOU very much for your recent letter in which you advised that you are going into the supermarket grocery business in a leased building. Also thank you for your confidence expressed in asking my opinion of the various types of coverages you should carry in order that you and your creditors might be protected.



R. A. YODER

You will have to absorb some minor losses out of your business, else yours would not be the progressive type that we like to think of as "The American Way," but the risks that would cripple, or destroy, your business are the ones to be insured. This fundamental principle should be applied to all your insurance.

The first consideration is a reliable agency, whether it represents mutuals, stock companies, reciprocals, or others. Choose an agency which places your needs above its commissions in premiums. There is so much fine print in all policies that often it is most confusing to a layman to get the correct coverage.

For your fire insurance with extended coverage, it is advantageous to take out a 100 per cent coinsurance policy, on a monthly reporting basis, which covers your merchandise stock, fixtures and supplies, along with improvements and betterments, and sprinkler leakage in the same policy. Such a policy fully covers at all times and you pay only for what you get in insurance coverage.

A five-year specific with annual renewal policy should be considered. If the limits of your coverage are greater than one company cares to handle, your agency probably represents several companies, which can handle your needs on a pro-rata basis.

Comprehensive General Liability

You most certainly will need a comprehensive general liability policy, and, under present values and recent court awards, a personal injury coverage of $50,000/100,000 is not excessive, as the increased limits require a comparatively small increase in the premium. For property damage in such a policy, a small amount—$5,000—should be sufficient. This even could be eliminated as a crippling loss in this category would be most unlikely. Should you ever manufacture any products you sell, you should specify "products liability" in such policy. Also, if you have assumed any liability in any contract with the railroad company, or others, be sure to have "contractual liability" coverage. This also must be specified.

Workmen's compensation coverage should be carried. You may carry this liability yourself and handle all claims as spelled out by the Industrial Commission. However, it is much more satisfactory to have an insurance company handle such settlements and it is much more conducive to a better employer-employee relationship.

Against burglary, robbery, holdup, etc., your judgment should determine how much should be carried. A few thousand dollars of burglary and messenger robbery should be carried. While such a loss should not be crippling, this coverage has a distinct advantage in its effect on your personnel.

Fidelity Bonds for Employees

Fidelity bonds for your employees are, also, a matter for your judgment.

Automobile liability, both personal injury and property damage, should be viewed in the same light as outlined under comprehensive general liability. Most companies will accept $100 deductible under the property damage coverage. We believe this is advisable, as it will curtail at least 40 per cent of your property damage premium.

There are many other types of insurance which are nice to have, but from a business standpoint a loss in these categories would not result in any crippling loss. Among such coverages are auto fire and theft, collision, plate glass, and cargo.

Kindest regards to you and with best wishes for a successful business.

BIOGRAPHIES OF THE PARTICIPANTS

SIDNEY ALEXANDER, secretary and treasurer and director, S. Stroock & Co., Inc., has been with the company 48 years, starting as office boy. Educated in Manhattan, Mr. Alexander has been secretary and director since 1929, was elected treasurer three years ago. He has represented the company 25 years in the New York Credit and Financial Management Association.

N. A. CLOUET, treasurer, Sargeant & Co., New Haven, has been with the company 31 years, successively as cost department manager, order department manager, production manager, controller and now treasurer. A graduate of Yale, he spent seven years with the Winchester Repeating Arms Co., becoming process engineer. He is vice president of the Bridgeport Control of the Controllers Institute of America.

JOHN H. CURLING, secretary and partner in Broome Distributing Company of Syracuse and Binghamton, N. Y., has handled financial affairs of the company 15 years. He studied

law at William and Mary College and the University of Virginia and was with Philco Corp. for several years as office manager and controller, in its subsidiaries. Mr. Curling is a past president of the Syracuse Association of Credit Men.

Owen S. Dibbern, for the last 10 years general credit manager of Pabco Products, Inc., San Francisco, has been in credit management 33 years, starting in Seattle as district credit manager for Pabco. After six years he was named credit manager of Fibreboard Products, Pabco affiliate. Mr. Dibbern was western division manager of the National Association of Credit Men 15 years.

Don W. Gordon, general manager, Gleason & Co., Emeryville, Calif., was educated at McGill University in Montreal, returning to the States as an accountant and auditor. After a period with General Motors Corporation as a traveling auditor he became chief of staff of Skinner & Hammond, certified public accountants, out of the San Francisco office. He is on the board of directors of the Wholesalers Credit Association of Oakland.

C. A. Maguire, general credit manager, Francis Leggett & Co., New York City, has held that position 21 years and has been assistant secretary since 1946. Earlier he was treasurer and credit manager of R. H. McMahon for six years. Mr. Maguire served four years on the board of the New York Credit and Financial Management Association. He has written extensively on domestic and export credit problems, particularly pertaining to the food industry.

L. W. McBride, assistant secretary-treasurer of Wagner Electric Corp., St. Louis, joined Wagner more than 30 years ago. His education in commerce and finance was obtained in evening classes at St. Louis University while he was advancing successively through the shop, service and auditing and credit departments to become credit manager in 1928. He was named to his present post in 1950. Mr. McBride is a vice president of the Motor and Equipment Manufacturers Association.

Paul E. Mertz, secretary and treasurer, The Williamson Heater Co., Cincinnati, where he was born, is a graduate in accounting from Nelson Business College. He joined Williamson in 1903 as assistant bookkeeper, advancing to treasurer and director in 1924. He continues as a director in addition to his new duties as secretary and treasurer. Mr. Mertz is a former president of the Cincinnati Association of Credit Men.

W. C. Pitner, vice president, American National Bank & Trust Co. of Chattanooga, is a graduate of the University of Virginia. After eight years in industrial affiliations, he became associated with American National, which he has served 23 years, most of the time as an officer in the operations and lending functions. He is a past president of the National Association of Credit Management, Inc.—Cherokee Unit.

Frank W. Poe, assistant cashier, Mellon National Bank & Trust Co., Pittsburgh, after graduation from Washington and Jefferson College, became affiliated with the First National Bank of Midland, Pa., and advanced to cashier. He joined Mellon National in 1946 and since 1949 has been assistant cashier in charge of the insurance division. He attended the American Bankers Association Graduate School of Banking at Rutgers University 1939-40 and was a commander in the U.S. Naval Reserve. Mr. Poe is president of the Insurance Buyers of Pittsburgh.

Arthur Reese, divisional credit manager, W. P. Fuller & Co., Los Angeles, and president of the Credit Managers Association of Southern California, followed his graduation from the Carnegie Institute of Technology in Pittsburgh with credit work in Akron and Cleveland. He operated a general insurance agency before moving west to join Fuller as office and credit manager in Phoenix, transferring to San Diego with the same duties. In 1946 he assumed his present duties. He was president of the San Diego Wholesale Credit Men's Association in 1941.

C. J. Swalen is secretary-treasurer of the Pako Corp., Minneapolis, manufacturers of photo and X-ray processing equipment, also photo-finisher and photographic merchandiser. Mr. Swalen was president of the Minneapolis Association of Credit Men and Associated Creditors for the 1945-46 term.

Ross J. Ulman, graduate of Kent College of Law and admitted to the Illinois State Bar in 1922, was assistant credit manager for Marshall Field & Co., wholesale division, until 1936, when he became associated with Tootle Dry Goods Co., wholesalers, as credit manager for Omaha. Five years later he became Omaha branch manager and in 1946 vice president of the company. He was president of the Omaha Association of Credit Men 1945-46 and is a past director of the National Association of Credit Men.

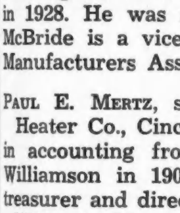
R. A. Yoder, auditor, Thomas & Howard, Charlotte, received his A.B. degree at Lenoir College and did post graduate study at the University of North Carolina. He was one of the first members of the Piedmont Association of Credit Men, Inc., and continues active in the organization's work. He joined Thomas & Howard in 1918.

Fire Loss of '53 Headed for Staggering $900 Million Total

By GEORGE G. TRAVER

Manager of Public Relations
National Board of Fire Underwriters
New York, N.Y.

WITH the exception of but two years in 15, fire losses in the United States have been increasing steadily since 1938. From that year through 1942 the rise was gradual, thereafter sharply upward. In 1949 and 1950 the losses declined, only to shoot upward again in 1951 and 1952, when they totaled $815,134,000.



G. G. TRAVER

So far this year the upward trend has continued, with the result that losses for the first six months totaled $432,081,000. This was 6.8 per cent over losses of $404,653,000 reported for the corresponding period last year. Should this continue, losses for 1953 may reach a record total of $900,000,000.

By way of explanation, the National Board of Fire Underwriters points out that the continuing high losses result from various factors at work in the nation's economy, in particular mounting production and greater values which have been exposed to fire.

Such losses unquestionably would be even higher were it not for major advances in fire prevention, construction, safety measures and improved methods of fire fighting.

California Employment Rises Faster Than the Population

California employment percentagewise is increasing faster than the state's population, according to the results of a study just completed by the economics department of the Bank of America N.T. & S.A. In the 13 years from April 1940 to April 1953, employment went up 86 per cent, from 2,574,000 to 4,777,000. In the same period the population rose 71 per cent, from 6,900,000 to 11,800,000.

Non-agricultural employment increased 103 per cent, headed by manufacturing of both defense and non-defense products, with major growth in construction and government jobs. Farm employment went up 43 per cent.

In the main the national pattern was followed in California.

Guides to Improve Executive Operation

KEEPING INFORMED

THE BOSS AND TWENTY THIEVES—Why faithful employees steal from trusting employers is the subject of this 12-page booklet. It describes in fictionalized form actual case histories from the company's records of embezzlement, large and small; why people suddenly turn dishonest; the methods used to conceal thefts. The research indicates that years of service or closeness of relationship present no barriers to dishonesty. Write North America Companies, 1600 Arch St., Philadelphia 1, Pa. Free.

DEFENSE AGAINST FIRE—You can reduce the chance of having a fire in your home. This leaflet tells what danger points to check and what to do in case of fire. Write W. D. Allen Mfg. Co., 566 W. Lake St., Chicago 6, Ill. Free.

BUSINESS INSURANCE IV (Management Aid No. 28)—This is the last of a series of four Management Aids on Business Insurance and includes boiler and machinery, glass and credit insurance. Write U. S. Department of Commerce, 221 N. La Salle St., Chicago 1, Ill. Free.

Informative reports, pamphlets, circulars, etc., which may be of interest to you. Please write directly to the publisher for them. CREDIT AND FINANCIAL MANAGEMENT does not have copies available.

To expedite receiving these booklets, please address all inquiries concerning Efficiency Tips to CREDIT AND FINANCIAL MANAGEMENT, 33 So. Clark St., Room 1538, Chicago 3, Ill.

EFFICIENCY TIPS

320—AMERICAN MUTUAL LIABILITY INSURANCE COMPANY will send "The Case Book of Safety Engineering at Work," giving details on safety engineering case study, plus six other outstanding accident-control achievements. How to save people, profits and production through a job-safety analysis program.

321—THOMAS A. EDISON, INC. has a new, fact-crammed book on TELEVOICE, telling how dictation costs are cut 66 per cent in less time. It also shows a "3-Way Saving Chart." Ask for "5 Big Benefits of Edison Televoice."

322—AMERICA FORE INSURANCE GROUP offers "Trip Tips," a booklet telling how to prepare your car, be safe on your journey, protect your home and enjoy peace of mind when you plan a trip, whether vacation or business.

323—TENSION ENVELOPE CORPORATION will send "Envelope Economies," containing hints on ways to save money when ordering paper. It includes charts giving equivalent weights for book, bond, bristol and index stock and how to determine ream weights.

324—METROPOLITAN LIFE INSURANCE COMPANY, in its booklet 735-S, "Food for the Family," discusses the essential nutritive elements, tells why you need them, and what foods supply them.

325—ADDO MACHINE COMPANY, in "Mimeographing Without Stencil Cutting," explains how its RONEO duplicator produces drawings, illustrations, halftones and letters without stencils.

326—REMINGTON RAND'S folder, "Mechanized Accounts Receivable Posting," demonstrates how to keep customer records uptodate, make detailed distributions with less effort, and maintain complete accounting control at all times through mechanized accounting.

BOOK REVIEWS

THE FINANCIAL POLICY OF CORPORATIONS—By Arthur Stone Dewing. Two volumes. Price $15.00. The Ronald Press Co., 15 E. 26th St., New York 10, N.Y.

✦ This new two-volume edition of a book regarded as an authoritative guide to financial policy has been revised to take into account the changes in economic, social and political conditions in the last decade, since World War II.

Discussed are the varied aspects of corporate finance, social and economic relationships, governmental controls, trends in financial markets, court decisions of far-reaching consequences, and the course of action open to the financial executive.

In five sections—Corporate Securities, Valuation and Promotion, Administration of Income, Expansion, and Financial Adjustments—1530 pages, fundamental principles and conclusions are illustrated with factual material, specific instances, experiences and decisions on policies of corporations.

HOW TO GET AHEAD IN MODERN BUSINESS.—By Harry Simmons, Price $3.95. Prentice-Hall, Inc., 70 Fifth Ave., New York 11, N.Y.

✦ The author, with a background of 25 years in sales management and training, advertising and public relations, has eliminated theorizing and adopted a practical attitude in discussing the what, where and how of getting ahead faster. The advice of numerous successful American businessmen is included, illustrating the methods they used to get where they are. The book offers absorbing as well as rewarding reading.

INVESTMENT TIMING.—By C. Sidney Cottle and W. Tate Whitman. Price $5.00. McGraw Hill Book Company, Inc., 330 W. 42nd St., New York 36, N.Y.

✦ This book, a critical analysis of formula plans, was written to provide active and prospective investors with a comprehensive understanding of such plans, and information vital to a considered decision on their use in an individual investment program.

Books reviewed or mentioned in this column are not available from CREDIT AND FINANCIAL MANAGEMENT unless so indicated. Please order from your book store or direct from the publisher.

APPRAISALS

(Concluded from page 19)

give an accurate basis for determining value.

A survey, properly detailed, by an independent contractor is in many ways similar to that used by the appraisal companies. That means a schedule of quantities and descriptions of the component parts of the building less depreciation, or, if contents are involved, a detailed and descriptive schedule listing these at replacement cost and following with determination of the depreciation applicable opposite each item. Determination of the proper rate of depreciation by independent contractors is usually the stumbling block. It is only fair to say that their prime function is to build—not to evaluate.

Keeping Appraisal Up to Date

The biggest problem with an appraisal—and it does not make any difference who made it—is the failure to keep it up to date. There have been years in which the costs have not materially changed. Today we cannot accede to any such thought. Costs have climbed tremendously the last 10 years. They may continue to do so. Whatever appraisal method is used, it is essential to review building appraisals at least once a year, and contents every 6 months to a year, depending on whether or not "ins and outs" are taken into consideration at the time they occur.

Details of an appraisal are all-important. We cannot avoid the fact that the whole value is made up of many items, and that each plays a certain part in determining value, both as to replacement cost and depreciation applicable. Trending of values after good basic appraisals have been made can be done, but it is preferable to reappraise every item. If trends are used, certainly they must follow the individual trade changes in the case of buildings, and class of equipment changes in matters of machinery, equipment and other contents.

Appraisals may be made to determine liquidation values, fair market value, going concern value or a physical value. In a proper appraisal to determine insurable value it should be clearly stated in the report that the calculations are based on reproduction cost less depreciation.

Sign in a shoe repair shop: "Credit makes enemies. Let's be friends."
—Sales Management

"Computations made by the insured's engineers, or accounting department, as a rule have not been as concise as we would like on buildings. Too often a square or cubic foot unit price is used. This is not really accurate. Determination of value of buildings must be itemized in detail by trade."
—J. F. BOEHNER

New Commodity Credit Office; Subsidiaries All Show Gains

Purchase of property for construction of an office building to provide facilities for operations of the various subsidiaries of the Commercial Credit Company, Baltimore, has been recommended to Commercial Credit Corporation.

In the semi-annual report, Commercial Credit Company and subsidiaries showed record consolidated net income from current operations after taxes, for the first half of 1953 and for 12 months. The finance companies reported record volume, outstandings and net income the first half of 1953. The insurance companies' written and unearned premiums at the end of the six months exceeded the similar period in 1952; unearned premiums were larger than for any previous six months period. The manufacturing companies had a six month record sales volume.

New Ink Roller Assembly

A new Mammoth Ink Roller 13¼" roller assembly for use on 1250 and 1200 Multilith offset presses is announced by the Lewis N. Pemberton Printing Company, 1200 West 8th St., Los Angeles 17, Calif. The regular multilith oscillator roller fits into this new roller, which has the same circumference as the printing area of the printing plate. For making solids and fine halftones it is possible to make a large quality press of the 1250 multilith. The ears on the ends of the new roller permit raising it off the smaller rollers so it may be washed without removal.

Groth on CCC Board

Arnold W. Groth, executive vice president of the First National Bank of Portland, Ore., and recently elected to its board of directors, has been appointed by President Eisenhower to the advisory board of the Commodity Credit Corporation. Mr. Groth was a director of the National Association of Credit Men, 1935-38.

FIDELITY

(Concluded from page 15)

ters into all such systems. Their constant reminder to their clients is to trust no one, that no steps will reduce the importance of having fidelity bonds on the employees.

"I must have been money mad." This explanation was given authorities by the 43-year-old chief accountant of a harvesting machine company and a soya bean concern by which he successively was employed, for his embezzlements of $40,000 and $70,000 in the last 18 months of his business career.

Certainly the most efficient system of accounting could not have prevented the fake hijacking of a truckload of liquor valued at $4,500, by its driver and his helper in collusion with an outsider. Or stopped the woman who was employed as a store cashier on the strength of "phony" references, worked three hours, and left with the cash drawer contents of $1,017. Or deterred the clerk of a shipping company who never was seen again after he had picked up a fund of $6,000 at the bank to pay off a ship's crew. These are but a few of the many "one-shot" losses which could not be controlled by the best of systems.

Fidelity insurance owes its existence to the necessities of commerce and modern business methods. Today it is important in the development of business credit, as essential as an ample supply of materials and labor, and vital to the support and protection of the financial security of a credit-seeker.

The liquid assets on which the credit line is based could be wiped out overnight; without insurance or other resources the burden falls on the creditors. When employee-dishonesty is the cause, fidelity insurance not only insures the safety of the liquid assets but also the existence of the business.

"Can't afford it. We're insurance-poor now." Any business giving this as a reason for not carrying adequate fidelity insurance on all employees can least afford to be without that protection. The following words of the American Bankers Association to its members apply with equal force to all classes of business: "It is axiomatic that the cost of adequate insurance is a proper charge towards sound banking and that any business that cannot afford the expense of ample protection offers a hazardous investment."

Replacement Is Basis of an Evaluation For Insurance, Board Executive Notes

A LARGE eastern university had an adequate fire insurance program but did not carry extended coverage. The recent tornado cost the school more than a million dollar damage.


R. W. BARNES, JR.

With this illustration R. W. Barnes, Jr., executive secretary-treasurer of the Louisville Board of Insurance Agents, emphasizes his observation that "many a businessman has to have a disaster to find that adequate property insurance is not enough", adding that "the uncertain times in which we live and transact business emphasize the necessity of a sound insurance program."

Among the types of insurance on which such a program should be constructed, says Mr. Barnes, are property insurance with the additional protections obtainable under the standard fire policy with extended coverage indorsement; business interruption; liability (general and auto), comprehensive dishonesty, disappearance and destruction; workmen's compensation; life insurance on partners, officers and key employees, and miscellaneous types for special exposures.

Mr. Barnes cautions that present day replacement with allowance for depreciation is the basis for evaluation for insurance purposes. "In a large operation," he adds, "a competent appraisal service is almost essential to keep pace with values on buildings and equipment."

Many small merchants and manufacturers have never been informed of the importance of the all-important business interruption insurance, the executive points out. The case for comprehensive liability insurance is emphasized by "the continually rising judgments being granted in accident cases."

Mr. Barnes sees another change in the offing. "Crime and dishonesty are sure to increase as more and more postwar adjustments are made", in contrast to recent years' high level of income and almost complete lack of employment.

Life insurance for business protection not only "has had considerable effect on credit stabilization with banks and other creditors," Mr. Barnes wrote CREDIT AND FINANCIAL MANAGEMENT, "but it assists in stock repurchase plans whereby the control of the business can be retained in the official family."

Formally elected executive secretary-treasurer of the Louisville Board of Insurance Agents the beginning of this year, R. W. Barnes, Jr., brought to the post extensive experience in retail credit work. After graduation from Dinkins Military Training School and further education at the University of Cincinnati, Mr. Barnes spent a year with the Retail Credit Men's Association of Chattanooga, then 23 years with the Retail Credit Company at Atlanta.

Southern Idaho Secretary Was In Service of Credit Bureaus

The Southern Idaho Association of Credit Men and its executive secretary, Charles E. Williams, have launched the fall season of activities with new Groups organized, enlarged membership and a revised constitution and by-laws, results of the cooperative efforts since Mr. Williams was named to the executive post two years ago.


C. E. WILLIAMS

Graduate of Nebraska Wesleyan University with a bachelor of arts degree, Mr. Williams followed with a year of graduate study at the University of Nebraska. After six years in educational work, including superintendency of schools, he joined the International Harvester Company as a block collector. Four years later he engaged in personnel work for the United States Civil Service Commission and was in War Department service.

After war service Mr. Williams began serving Credit Bureaus in the Boise Valley and became manager of the customer relations division, with retail and adjustment offices at Boise, Nampa, Caldwell, Payette and Weiser, all in Idaho, and Ontario, Ore. Then came the election as executive secretary of the association.

Credit in Competition: Theme of the Tri-State at Baltimore

Reappraisal of credit in competitive selling is the theme of the 38th Annual Tri-State Credit Conference October 22-24, with the Baltimore Association of Credit Men as the host organization, and participation by delegations from New York, Eastern Pennsylvania, Jersey, Washington, D.C., Virginia and West Virginia.

Trade Group Day is October 23rd, with speakers addressing the following Groups: banking and insurance, clothing and footwear, drugs and chemicals, foods and beverages, metal and plumbing and heating, paint and hardware and building material, radio, electric appliances, floor covering and furniture, and textile. The Women's Group will have a luncheon October 24th.

James F. Welsh is conference chairman. President Ryland G. Bristow of the Baltimore association will welcome the delegates at the Lord Baltimore hotel headquarters.


HEADING ACTIVITIES of the New Haven Association of Credit Men this fall, under the leadership of John P. Markham of the Connecticut Coke Company, are (l. to r.) LeRoy C. Howard, The Howard Co., association treasurer; Herbert F. Kusterer, Second National Bank, second vice president; Sidney S. Monroe, First National Bank & Trust Co., immediate past president; Henry A. Titus, Malleable Iron Fittings Co., first vice president; President Markham; Frank J. Noonan, Sargent & Co., secretary; and John R. Heery, United Illuminating Co., N.A.C.M. director.

C. D. Breon Dies at Oshkosh; Oldest Secretary-Manager

At presstime comes word of the death of Charles D. Breon, secretary-manager of the Central Wisconsin (Oshkosh) Association of Credit Men.

Mr. Breon, often called the "dean of managers," had been very active in state legislative matters affecting credit and banking operations, especially in par clearance. He was reported to have been the oldest secretary-manager in years and in period of service. He joined the organization May 1, 1913.

He was instrumental in the introduction of the par clearance bill in Wisconsin, in fact sponsored at least three laws on credit which were passed by the state legislature virtually in his own phraseology. He also helped defeat inimical measures.

Mr. Breon was active in the American Legion and on the advisory committee of the State of Wisconsin Banking Association.

Beneke Had Served Company And Association 30 Years

The death of A. L. Beneke, secretary-treasurer of the Wheeling Corrugating Company, Wheeling, W. Va., removed an executive who during his 30 years with the company had been an enthusiastic supporter of organizational advancement of the credit profession, through the Wheeling Association of Credit Men, of which he was a director.

Walter L. Kauffman

Death came to Walter Lee Kauffman, Youngstown, Ohio, less than a week before what would have been his 93rd birthday anniversary. Mr. Kauffman was credit manager of the Youngstown Sheet and Tube Company when he retired in 1936. He had lived in Youngstown since 1886, when he managed the operation of the first pipe mill built there, for the American Tube and Iron Company of Middletown, Pa. In 1909 he joined Youngstown Sheet & Tube in the credit department. He was a leader in Youngstown credit circles for years.

Fred Jacobs

The unexpected death of Fred Jacobs, general credit manager of Gardner-Denver Company, Quincy, Ill., at 46 years, removed an executive who had given much time to the interests of the profession. He was president of the Quincy Association of Credit Men for two terms—1945-47.

Philip S. Morshead

Past president of the Detroit Association of Credit Managers, Philip S. Morshead, who died at 72, had been Detroit credit manager of Revere Copper and Brass, Inc., when he retired two years ago.

Lewis Homburg

Before his retirement from his duties with the Norwine Coffee Company, St. Louis, the late Lewis Homburg served the St. Louis Association of Credit Men for years and in many capacities.

CALENDAR OF EVENTS IMPORTANT TO CREDIT

KANSAS CITY, MISSOURI
September 23, 24, 25
Quad-State Annual Credit Conference, comprising Missouri, Kansas, Oklahoma and Southern Illinois

❖

SAN FRANCISCO, CALIFORNIA
September 23-25
Western Division Secretary-Managers Annual Conference

❖

CHICAGO, ILLINOIS
October 14
Illinois Annual Credit Conference

❖

NEW ORLEANS, LOUISIANA
October 14-15-16
All-South Credit Conference

❖

OMAHA, NEBRASKA
October 14-16
Tri-State Annual Credit Conference, comprising Iowa, Nebraska and South Dakota

❖

LOS ANGELES, CALIFORNIA
October 21-23
Pacific Southwest Annual Credit Conference

❖

BALTIMORE, MARYLAND
October 22-24
Tri-State Credit Conference, comprising New Jersey, New York, Eastern Pennsylvania, District of Columbia, Maryland and Virginia

❖

DETROIT, MICHIGAN
October 23-24
Ohio Valley Regional Conference, covering Ohio, Western Pennsylvania, West Virginia, Kentucky and Eastern Michigan

DETROIT, MICHIGAN
October 24-25
Midwest Credit Women's Conference

❖

NEW YORK CITY
October 26, 27, 28
(New dates)
Annual Conference of American Petroleum Credit Association

❖

WORCESTER, MASSACHUSETTS
November 3-4
Annual New England District Credit Conference, covering Connecticut, Rhode Island, Massachusetts, Maine, New Hampshire, Vermont

❖

DENVER, COLORADO
November 6-7
Credit Research Foundation Trustees Meeting

❖

COLORADO SPRINGS, COLORADO
November 9-10-11
N.A.C.M. Board of Directors Meeting

❖

CHARLOTTE, NORTH CAROLINA
March 8-9, 1954
Annual Conference of Secretary-Managers of Eastern Division N.A.C.M.

❖

SPOKANE, WASHINGTON
March 18-19, 1954
Pacific-Northwest Annual Credit Conference

❖

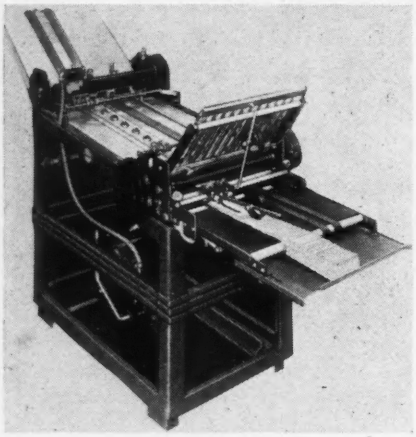
SAN FRANCISCO, CALIFORNIA
May 13-14-15, 1954
Annual N.A.C.M. Secretary-Managers Credit Conference

❖

SAN FRANCISCO, CALIFORNIA
May 16-20, 1954
58th Annual Credit Conference and Convention, National Association of Credit Men

Modernizing for Office Efficiency

introducing new office equipment and systems to effect economies in labor and costs, as well as to speed production of essential office work

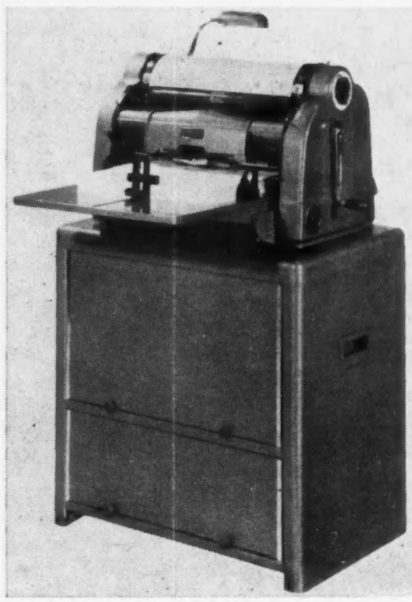


Precision Folder of Many Uses

If it is necessary to fold IBM checks, insurance policies, certificates or other printed documents, examine folded statements just before they are mailed, or match personalized mailing to addressed envelopes, then the Davidson Model 138 Precision Folder would seem to offer a solution. Correct setting of the Micromatic Detector guarantees absolute alphabetical or numerical sequence. It is impossible to fold more than one form at a time. Fast as well as accurate, this Model 138 may be reloaded while folding at a speed, depending upon the size of the paper, up to 20,000 pieces an hour. The maximum sheet size is 14″ by 20″, and the minimum size 3″ by 3″. Floor space required is 21¼″ by 35″ and connection may be made to a light socket, drop cord, or outlet. The manufacturer, Davidson Corporation, 29 Ryerson Street, Brooklyn 5, N.Y., will be glad to send additional information on request.

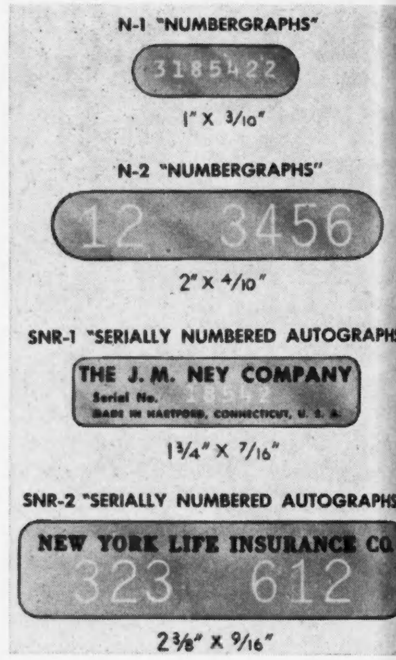
Duplicator with Wide Range

A duplicator with an exceptionally wide range of printing sizes, including legal size and double-legal size, is manufactured by the Gestetner Duplicator Corporation, 50 McLean Avenue, Yonkers 5, N.Y. The Model 180, called an "express inker," is said to make it possible to change quickly from very large to very small work. The vacuum inking system provides an even, controlled distribution of ink, regardless of the size of the copy. The duplicator easily can be adapted to print from either legal or double-legal size stencils, which allows for the preparation of work on a standard typewriter, without the necessity of a double-legal typewriter carriage. The paper feeding mechanism is precision-engineered and the unit-drive construction insures quietness of operation. The cabinet is of convenient height, bringing all parts of the machine within easy reach of the operator, color changing is simple and clean. Write the manufacturer for more details and folder.



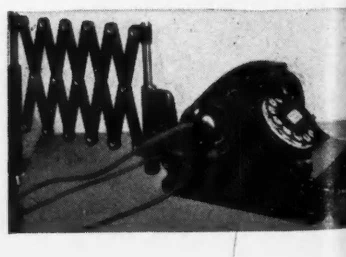
New Identification Plates

The new types of adhesive-back inventory control and equipment identification plates introduced by Metalcraft, Inc., 1619 S. Federal Street, Mason City, Iowa, can put greater efficiency into inventory control practices. Users quickly can match written records with the serially numbered plates affixed to furniture, fixtures and equipment. The "Autograph" carries numerals and alphabetical characters in any sequence, deeply stamped into the face of the plate and filled in with black lacquer for legibility. Advertising copy or the name of the company is lithographed in two colors. The "Numbergraph" bears stamped numerals and alphabetical characters only. These plates are produced in two stock rectangular sizes on .008″ Mill Finish Aluminum, a pliable metal which readily can be shaped to conform to curved or irregular surfaces. Both types are backed with a resilient solvent-activated adhesive that permanently adheres to surface.



Phone Bracket Saves Desk Space

The new Extenda Phone, manufactured by the Glidex Corporation, 4538 W. Roosevelt Road, Chicago 24, Ill., adds work space to a desk where a phone is needed. It provides an easy way to keep the phone in reach, yet out of the way. The Glidex bracket has a new wider front tray for newer phones, and swings in all directions. It extends to 30 rigid inches and folds to only 9 inches, and is made of strong, durable steel, in black finish.



When writing to the makers of these products please mention that you read about them in CREDIT AND FINANCIAL MANAGEMENT.